H.J. HEINZ COMPANY ANNUAL REPORT 1999

HEINZ

57 NEW WAYS TO ENJOY HEINZ KETCHUP

HEINZ.COM

KETCHUP GOES GLOBAL

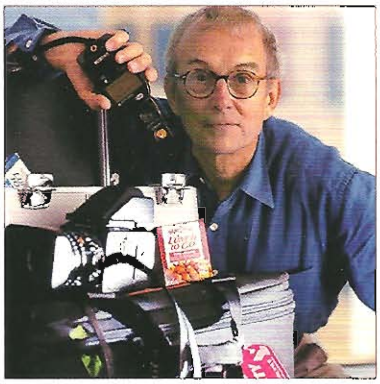
ASSIGNMENT HEINZ

Two Journalists Share Their Views About Heinz, As They Report From the Outside Looking In

The H.J. Heinz Company is an unfolding story of growth, energy and new ideas. Rather than tell the story ourselves, we asked a seasoned journalist and photojournalist to report on the people and strategies that will generate growth and shareholder value for the company around the world. This book is their report.

CATHERINE ERICKSON

Catherine Erickson is a respected journalist and editor who spent 11 years working for the Associated Press bureaus of New Orleans, Louisiana; Jackson, Mississippi; Detroit, Michigan; and most recently Pittsburgh, Pennsylvania. Her assignment in Pittsburgh lasted nine years, during which she was an editor and business writer covering regional companies for a national audience. Erickson's work appeared regularly in major dailies, including *The New York Times*, *The Washington Post* and the *Chicago Tribune*. She now works as a freelance writer and journalist.



BURK UZZLE

Burk Uzzle is a renowned photojournalist with more than 40 years experience capturing the images of war, popular culture and business leadership. His pictures have appeared on the covers of such noted publications as *Fortune*, *Newsweek*, *Sports Illustrated* and the Sunday *New York Times Magazine*. A freelancer based in St. Petersburg, Florida, Uzzle does assignments around the world for nearly every major business publication, including *Forbes*, *Money* and *Fast Company*.

H.J. HEINZ COMPANY ANNUAL REPORT ASSIGNMENT HEINZ

FINANCIAL HIGHLIGHTS

H.J. Heinz Company and Subsidiaries

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1999 (52 WEEKS)	1998 (52 WEEKS)	1997 (52 WEEKS)
Sales	$ 9,299,610	$ 9,209,284	$ 9,357,007
Operating income	1,109,312	1,520,330	756,271
Net income	474,341	801,566	301,871
Per common share amounts:			
Net income – diluted	$ 1.29	$ 2.15	$ 0.81
Cash dividends	1.34¼	1.23½	1.13½
Book value	5.02	6.10	6.64
Capital expenditures	$ 316,723	$ 373,754	$ 377,457
Depreciation and amortization expense	302,212	313,622	340,490
Property, plant and equipment, net	2,171,024	2,394,662	2,479,220
Cash, cash equivalents and short-term investments	$ 123,121	$ 99,398	$ 188,437
Operating working capital	881,542	762,474	1,107,696
Total debt	3,376,413	3,107,903	3,447,435
Shareholders' equity	1,803,004	2,216,516	2,440,421
Average common shares outstanding – diluted	367,830,419	372,952,851	374,043,705
Current ratio	1.04	1.24	1.05
Debt/invested capital	65.2%	58.4%	58.6%
Pretax return on average invested capital	20.8%	27.0%	12.6%
Return on average shareholders' equity	23.6%	34.4%	11.7%

(Note: All earnings per share amounts are on an after-tax diluted basis.)

The 1999 results include restructuring and implementation costs of $552.8 million pretax ($1.11 per share) for Phase I of Operation Excel and costs of $22.3 million pretax ($0.04 per share) related to the implementation of Project Millennia, offset by the reversal of unutilized Project Millennia accruals for severance and exit costs of $25.7 million pretax ($0.04 per share) and a gain of $5.7 million pretax on the sale of the bakery products unit.

The 1998 results include costs of $84.1 million pretax ($0.14 per share) related to the implementation of Project Millennia, offset by the gain on the sale of the Ore-Ida frozen foodservice business, $96.6 million pretax ($0.14 per share).

The 1997 results include restructuring and implementation costs of $647.2 million pretax ($1.09 per share), offset by gains of $85.3 million pretax ($0.14 per share) from the sale of non-strategic assets in New Zealand and the U.K.

NEW GROWTH IN A CHANGING WORLD

By Anthony J.F. O'Reilly, Chairman

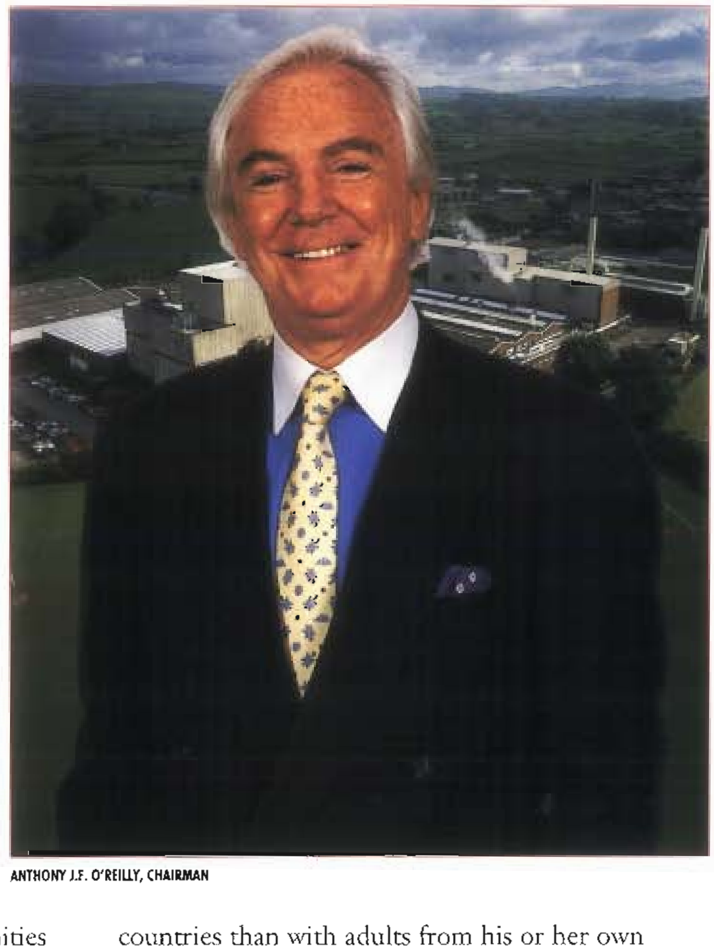
I have always admired the tenacity of a great idea. The H.J. Heinz Company certainly belongs in this category — a concept as strong and vital today as it was when the business was created 130 years ago. What accounts for this durability is the adherence of successive generations of Heinz leadership to a Jeffersonian — and classically American — ideal of continuous revolution and renewal. Thus, each change in the social and commercial environment becomes a new opportunity for growth and expansion.

A particularly noteworthy example for today's investors is the continuing benefit Heinz has derived from the recurring revolutions in technology that periodically reshape the social and economic landscape. The advent of radio, television, computers and the Internet have each given Heinz new channels to build relationships with a successively larger base of consumers.

Heinz's steady, solid performance amidst change rebuts the shortsighted notion that the recent fascination with the so-called "dot coms" should somehow diminish the attractiveness of investments in the food sector. A more insightful, long-range perspective is to see the two sectors as complementary, rather than competitive. The true value of today's technology revolution is its transformative effect on our global society. By shrinking the world, homogenizing its culture and speeding the conveyance of information, technology is expanding tremendously the market opportunities for a global food processor like Heinz.

THE GLOBAL OPPORTUNITY

Twenty years ago, only 15 percent of the world knew Heinz and its brands. Today, Heinz products are enjoyed by consumers on every inhabited continent. Technology has been a great enabler in this transformation. A case in point is the teenaged consumer, who lives in a world shaped by powerful global communications technology and who feels a closer cultural affinity with teenagers in other countries than with adults from his or her own land. This is the perfect opportunity for a global icon brand such as Heinz ketchup, and we are exploiting it.



ANTHONY J.F. O'REILLY, CHAIRMAN

Such growth opportunities will accelerate as we realize the full potential of Operation Excel, our global growth and restructuring initiative

announced in February 1999. Through global efficiency and reinvestment of Excel savings in aggressive marketing, Heinz will be uniquely positioned to address the worldwide passion for a global consumer lifestyle — and the popular world brands that satisfy it.

Even in established markets, globalization will acquaint consumers with new and enjoyable uses for our products. If Swedes can delight in putting Heinz ketchup on pasta, why can't Americans? All it takes is exposure to new ideas, which new media allows and which Heinz is better equipped to inspire than ever before.

"Heinz will be uniquely positioned to address the worldwide passion for a global lifestyle — and the popular world brands that satisfy it."

THE TALENT AND RESOURCES FOR GROWTH

This year's annual report focuses on how Heinz is driving full throttle toward the vast opportunities of our rapidly changing world. Through the eyes of a business reporter, we are giving you a glimpse of the tremendous talent, energy and creativity that the people of Heinz apply every day to meet the ambitious growth goals we set and meet year after year.

Added to that are reports on Operation Excel and our acquisition strategy in the rapidly recovering markets of the Pacific Rim. We are very pleased with the progress of Operation Excel, which is on target to generate more than $200 million in annual savings by Fiscal 2002 — an excellent source of oxygen to fuel our marketing initiatives. Another key to growth will be acquisitions and joint ventures, such as our recent additions of PT Heinz ABC, Indonesia's leading soy sauce and condiment manufacturer; Sonnen Bassermann, an excellent German maker of canned soups and convenience meals; and Thermo Pac and Serv-A-Portion, two ideal complements to our respective U.S. and European foodservice businesses.

As we salute our new generation of leadership, I would like to personally thank those Heinz directors who will be retiring from our Board in Fiscal 2000.

This year Bill Springer and Larry McCabe have decided to retire from Heinz, and I want to pay tribute to their exceptional contribution to the success of our company.

Bill, of course, will never actually retire. He has always been driven and has driven others to great heights. He is fiercely committed to performance and the highest standards. As president of Heinz North America, executive vice president and director, Bill has been a quintessential "Heinz man" and has greatly added to shareholder value.

Larry has been general counsel since 1990 and for many years has been an astute legal strategist. He has a clever legal mind and his great negotiating skills have been of immense benefit to Heinz.

Secondly, I would like to pay particular tribute to Al Lippert and Dick Cyert who died during the year. Al had an irresistible passion for life and a unique talent for salesmanship. As a driving force behind the creation of Weight Watchers, he was one of those great business pioneers who comes along once in a lifetime, and he was the best storyteller I ever encountered. I've never known a more enterprising individual or a more compassionate business leader. In a word, he will be irreplaceable.

Dick was a gallant and innovative man. His contributions to Heinz's board were perceptive and original and, importantly, focused both on shareholder value and on the interests of employees. In summary, he was the director every company should have and the friend we all need.

Finally, we must recognize the outstanding contribution of Heinz's 38,600 employees around the world who share a common language of growth. Together we pursue the opportunities of the new millennium and strive for ever-increasing shareholder value — the constant goal in a changing world.

BILL JOHNSON PROVIDES THE ANSWERS

A Candid Dialogue with Heinz's President and CEO Yields Insights into Past Performance and Future Growth

Q. How would you describe Fiscal 1999?

A. Fiscal 1999 was a great year for Heinz as we delivered record earnings per share (EPS) of $2.40 (up 11.6%), excluding restructuring-related items. This marked strong back-to-back years of double-digit EPS growth. We also focused successfully on top-line growth with our sales volume increasing 3.2%. We increased return on invested capital to 30%. We greatly improved our return on assets and our return on equity. We established a new record for gross margins at plus 40%.

This was also a year when we began to see a strong turnaround in our important ketchup business.

Q. What can shareholders expect this fiscal year?

WILLIAM R. JOHNSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, VISITS AN ITALIAN MARKET.

A. Be assured that whatever we do will be directed first and foremost towards increasing shareholder value. Exciting top-line growth initiatives are emerging from our new global category management approach. Global ketchup sales are very strong and should grow 6 to 7% in Fiscal 2000. We expect a turnaround in Ore-Ida potatoes, with market share heading back towards 50%. We expect double-digit growth in Smart Ones frozen entree sales. And we believe pet food sales and market share will turn around in the last half of the year.

Shareholders can also expect continued improvement in return on invested capital, in our use of working capital and in cost reduction. Gross margins should improve further, notwithstanding our pricing and marketing initiatives, because of Operation Excel productivity improvements.

Q. Food stocks have been lagging. Why should investors consider Heinz a good choice?

A. Heinz fundamentals are good, and we fit well in any long-term investor's portfolio. This is why there are more "buy" recommendations on our stock than at any time in recent history. Global expansion and our renewed emphasis on marketing and innovation

will drive our top line. Ketchup is found in virtually every household in America but tops host foods like hot dogs, french fries and hamburgers less than 50% of the time. Therefore, our battle really relates to getting people to use *more ketchup*. Our mission states: "A bottle on every table, everywhere."

Q. What else makes Heinz a good investment?

A. Heinz also stands apart in its continuing ability to reduce costs. Many companies claim this ability, but we have a proven track record of reducing costs across the value chain of procurement, manufacturing and logistics. The scope of our international operations and our ability to enter fast-growing, emerging markets with high-quality brands are key strengths.

Finally, I believe Heinz is the best of the food stocks because the global breadth of our portfolio helps ensure that we will achieve our targets. Companies that are focused on one or two categories are unable to offset pricing or top-line issues.

Q You have said Heinz must return to its roots as a marketing company. What will that mean?

A. We must always remember that the consumer comes first. We must increase the "experiential richness" for our consumers whether they are shopping, eating at home or at restaurants. We need to embrace major trends in away-from-home eating and in providing simplified meal solutions.

We are addressing fundamental consumer needs, such as taste, value, innovation and convenience. We already spend well over $1 billion a year promoting products directly and indirectly to consumers. We need to increase our direct funding against consumers, using new communications technology (such as the Internet) and creating fresh demand for our products. We will aggressively fund our ketchup advertising, particularly the global TV campaign by Leo Burnett Co. We will support the expansion of the Smart Ones frozen entree line and help launch exciting new pet treats. Frankly, we have more ideas than we have funds available. That's a good sign.

Q. How will Heinz drive ketchup consumption?

A. Ketchup adds flavor to life, and people around

Q: What do you think the future holds for Heinz? What will the landscape be like in 10 to 20 years?

A: One thing is certain: People will still be eating! And they'll be eating Heinz brands.

the world have a love affair with Heinz ketchup. As food preferences go global, we will benefit from the spread of ketchup habits. We believe that we can convince Americans to use ketchup in new ways. Per capita consumption in the U.S. is only half that in Sweden, where people use it on pasta. Others use it on pizza; the Thais use it for dipping potato chips; the Spanish use it on omelets. Why not in America?

A big part of our growth will come from shifting our target audience. Our launch of advertising aimed at teens, which will be followed by a campaign targeting younger kids, allows us to really reach the primary audience — and the heaviest users of ketchup. Teens are our entrée to new markets because they are the vanguard of new tastes.

Q. How would you characterize the progress of your growth initiative, Operation Excel?

A. It is proceeding at a faster pace than we initially projected. We believe that we will save more than $200 million annually long-term. Operation Excel is

also transforming our operations in Europe, Australia and Asia and in our frozen food business in North America. Excel is enabling us to leverage global procurement and manufacturing faster than anyone could have predicted. All our employees are embracing global category management and consolidation across boundaries as the new growth wave for our industry.

Q. Why are you selling Weight Watchers International now that it has undergone what you have called a "spectacular turnaround"?

A Weight Watchers does not fit strategically with Heinz, and we can now divest it from a position of strength which greatly benefits our shareholders. The skills required to manage this retail business are not synergistic with our core competencies.

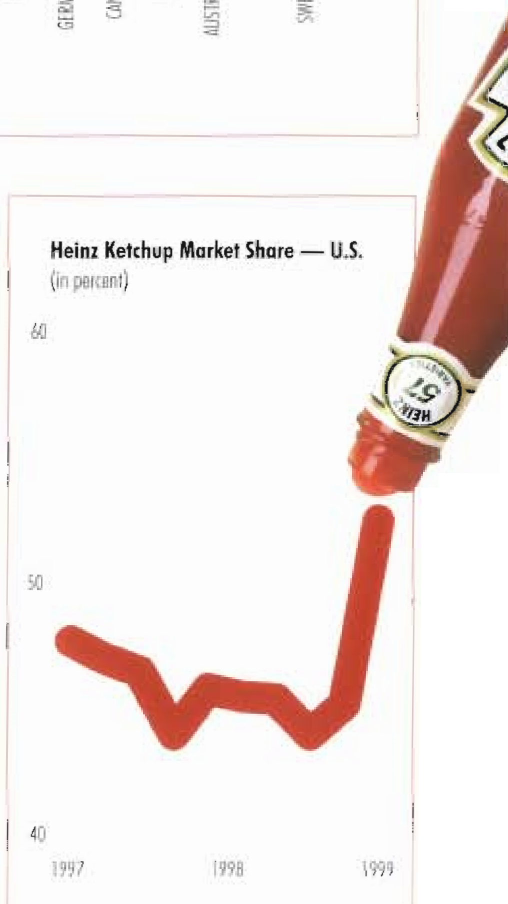
Q. Heinz became what it is today by acquiring businesses. How will acquisitions fit into Heinz's future?

A. We're going to continue making acquisitions to strengthen our worldwide portfolio. Our intent will be to provide critical mass and strong brands in emerging markets, such as PT Heinz ABC in Indonesia or Farex and Complan in India. We can then introduce other Heinz products and ventures into those markets and further develop them. Acquisitions also will allow us to extend our core portfolios.

Q. What do you think the future holds for Heinz?

What will the landscape be like in 10 to 20 years?

A. One thing is certain: People will still be eating! And they'll be eating Heinz brands. As the world becomes more connected, big companies like Heinz will become bigger. The number-one brand players in each category will grow even more. Trust in products and brands will be communicated much faster around the world. I am very excited about the Internet. In my view, Heinz must use the Net to extend its branded name advantage directly to consumers. Besieged by a surfeit of choice, people will look to brands like Heinz to help create a lifestyle that is enjoyable, entertaining and healthy.



KETCHUP WITH AN ATTITUDE

Kids Everywhere Are United by Their Tastes and Beliefs — And Their Love of Heinz Ketchup

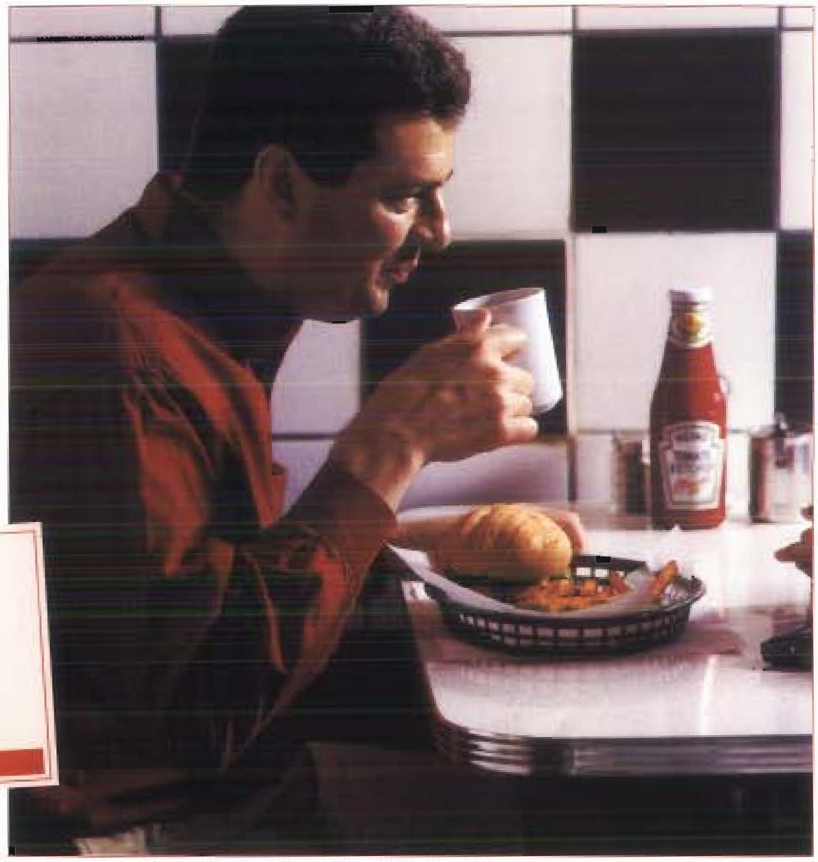
Let's get one thing straight from the start: For most kids, ketchup is far more than a condiment. It's practically a major food group.

Kids love the taste of ketchup, and they eat lots of it. They love to play with ketchup — to slather, squirt, dribble, drip and dip with abandon — to make their food their own.

No wonder Heinz is tapping this young market as it embarks on a mission to drive consumption and boost loyalty to its flagship brand, to

If per capita consumption throughout Asia grew to the same level as Thailand, Heinz ketchup sales in Asia would grow by 40 times.

indelibly link the Heinz name with ketchup in virtually every nation on earth. After a five-year absence from U.S. television, Heinz ketchup is returning to the airwaves with a $50 million global ad campaign targeting teens. The ads, created by the Chicago agency Leo Burnett Co. and already launched in test markets, have received rave reviews. *Advertising Age* gave them a four-star rating and praised their "savagely funny observations of ketchupness."



HELPING TO MAKE HEINZ THE WORLD'S UNDISPUTED KETCHUP KING IS CASEY KELLER'S TOP MISSION.

Research shows the ads' slightly offbeat, edgy humor — a big departure from Carly Simon singing "Anticipation" — will appeal to teens around the world.

"It's ketchup with an attitude," says Casey Keller, vice president of retail marketing for Heinz U.S.A. "It's about personality and character."

You have to see the ads to really appreciate them, but here are some highlights to give you the flavor: Each ad features a voice-over of a young man talking about ketchup. One spot refers to Heinz as "the rude ketchup" because it makes people wait. Another muses that Heinz ketchup "allows you to make food taste however you want it to taste…two popular options are ketchuppy and even more ketchuppy." One spot features

the last bit of ketchup that stays in the bottle. "This part of the ketchup has issues," the voice-over emotes.

Winning kids over is serious business. Children 6 to 12 years old are the biggest consumers of ketchup, followed closely by those 12 to 18. A household with at least one child goes through more than five 28-ounce bottles of ketchup a year, about two-and-a-half times as much as those without children. Research shows teens are an especially good target for the global campaign because they share many of the same tastes, attitudes and beliefs.

The new ad campaign is just one part of a transformation the company is undergoing to make Heinz the world's undisputed ketchup king.

The company is still promoting traditional uses of ketchup — for hamburgers, hot dogs and fries. But it is spreading new ideas, too.

In the U.S., recipes for dishes like Cheeseburger Pizza (which uses ketchup instead of pizza sauce) are mailed to homes with kids and promoted through advertising and store displays. Kraft has teamed up with Heinz to promote a "Cheeseburger Macaroni" recipe printed on ketchup bottle labels and boxes of macaroni and cheese.

KETCHUP & POTATO CHIPS

Snack companies will introduce potato chips flavored with Heinz ketchup. The idea isn't entirely new. Heinz is a best seller in modern supermarkets in Thailand, where ketchup is a popular potato-chip dip.

"Ketchup makes food taste however you want it to taste."

"We're going to create more fun around how people use ketchup and when they use ketchup," Keller says.

Heinz even lowered its prices to create better value. It brought back its classic glass bottle for a nostalgic 99-cent summer promotion featured on billboards and in radio ads.

These promotions seem to be paying off. Heinz's share of the U.S. ketchup market, which had been slipping for several years, began to climb in Fiscal 1999 and had jumped about 4 percentage points to more than 50 percent by the end of the year. Total U.S. ketchup consumption rose about 5 percent last winter alone, far more than the historical growth rate of about 1 percent a year. These numbers are still going up.

"The shares are bouncing back," Keller says. "We have been able to turn the business around. We're managing for growth."

As Heinz revitalizes its ketchup business in the U.S., it is working to drive consumption in other parts of the world. Heinz estimates it has about one-third of the world's ketchup market, with sales climbing nearly 8 percent in Fiscal 1999 to more than $1 billion.

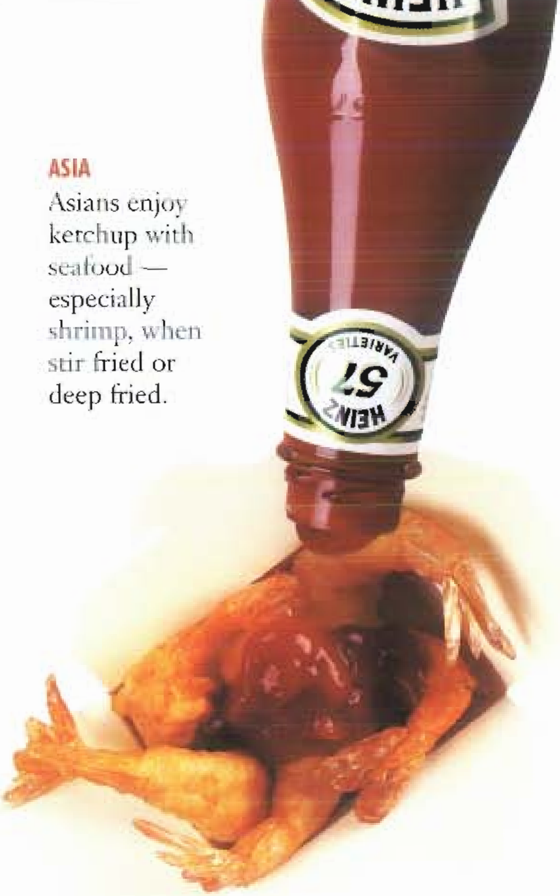
Beyond America, Canadians and the British use the highest volume of ketchup. Australia, New Zealand and Northern Europe are also strong markets.

'MAKES FOOD KETCHUPPY'

The spread of fast-food outlets is helping to introduce ketchup to heavily populated, emerging markets, where the possibilities are staggering.

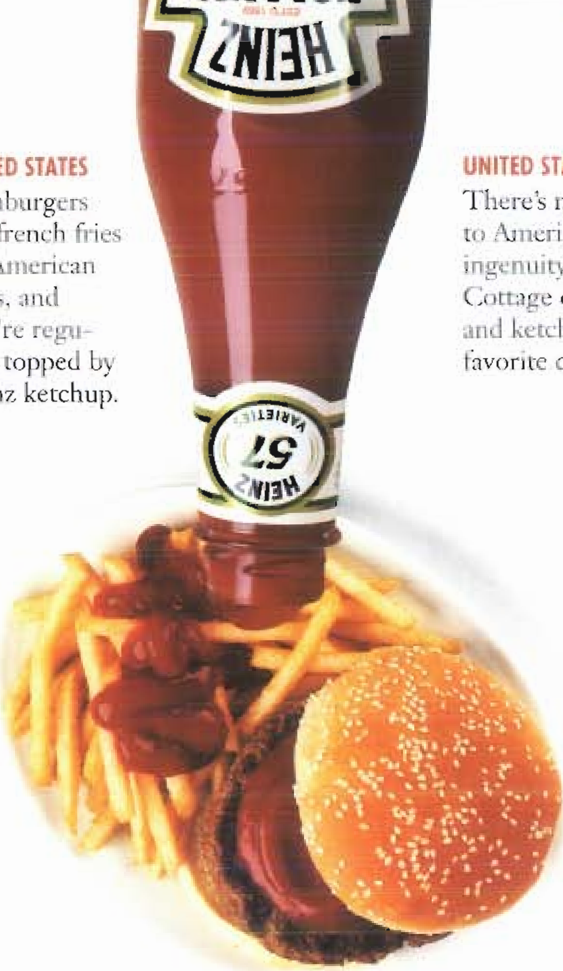
Ketchup is used in many different ways around the world. In Sweden, it is eaten with pasta. In Venezuela, it is paired with rice. In the United Kingdom, it's a favorite with fish and chips. In Eastern Europe, it's teamed up with pizza.

It seems the whole world has a taste for ketchup, one way or another. Perhaps one of the new ads says it best: "Heinz tomato ketchup. Makes food ketchuppy ...to various degrees."



ASIA

Asians enjoy ketchup with seafood — especially shrimp, when stir fried or deep fried.



UNITED STATES

Hamburgers and french fries are American icons, and they're regularly topped by Heinz ketchup.

UNITED STATES

There's no limit to American ingenuity. Cottage cheese and ketchup is a favorite combo.

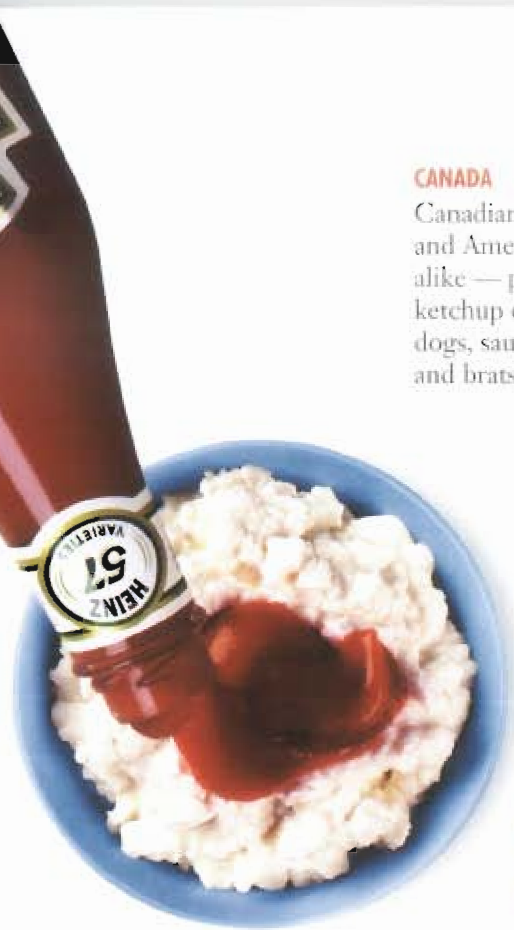
KETCHUPPY AND

SWEDEN

Swedes favor the flavor of ketchup on plain pasta.

EASTERN EUROPE

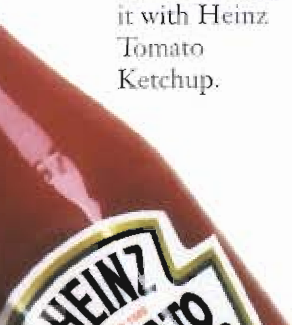
In Eastern Europe, ketchup is a favorite pizza topping.



CANADA
Canadians — and Americans alike — pour ketchup on hot dogs, sausages and brats.

THAILAND
Teens in Thailand dip potato chips in ketchup, creating a snack sensation.

MORE KETCHUPPY



GREAT BRITAIN
The Brits made fish and chips an international sensation, usually serving it with Heinz Tomato Ketchup.

CHINA
Heinz is building a ketchup factory in China, which will supply a fast-growing fried chicken restaurant chain.

SPAIN & INDIA
Both Spaniards and Indians enjoy ketchup atop their omelets and other egg dishes served at breakfast, lunch or dinner.

BON APPETIT! PETS LOVE TREATS

Writer Becomes Master Of Lucy's Universe

by Catherine Erickson

Heinz dog treats changed my life. OK, maybe that's a bit of an exaggeration. But they did change the life of my golden retriever, Lucy.

In researching Heinz Pet Products, I was encouraged to let Lucy sample a couple of the company's popular treats: Pup-Peroni, Snausages and Wagwells. "She will love them," promised John Heil, chief revenue officer and president of Heinz Specialty Pet Products.

JOHN HEIL: "THE MARKET FOR PET TREATS IS GROWING, AND HEINZ'S SHARE TOPS 50 PERCENT."

He was right. These days, Lucy will sit, lie down or shake with such fervor I worry she might pull a muscle. As keeper of the treats, I am master of her universe. And she, I'm sure, will never be the same.

It turns out my family is part of a growing demographic. Consumers around the world are spending more on pets. More for food. And more for treats that will make them heroes in their cat's or dog's eyes.

"Treats are all about snacking and all about fun," Heil says. "The animals love it. They slop it up."

DOGS, LIKE ALFRED, PROFESS THEIR LOVE OF WAGWELLS FOR SUE DEHNER OF HEINZ PET PRODUCTS.

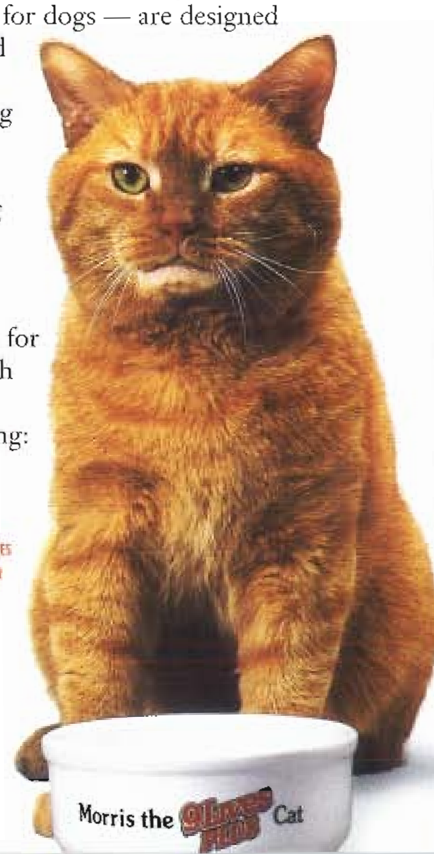
Heinz leads the growing market for pet treats, with a share topping 50 percent. The latest new products, designed with health benefits in mind, are expected to boost that share even more.

Pounce Hairball Treatment, a mineral oil encased in a kibble, was the top-selling cat treat only two months after its introduction. Wagwells — chewy, heart-shaped snacks for dogs — are designed to promote healthy skin and a shiny coat.

"These are a good-tasting form of health promotion," says Sue Dehner, general manager of trade marketing and sales planning for Heinz Pet Products.

Heinz's best-selling cat food, 9-Lives, is also poised for more growth, partly through a growing enthusiasm for a pioneering form of packaging: four-can packs.

EDITOR'S NOTE: JOURNALIST CATHERINE ERICKSON LIVES IN A RESTORED PRE-CIVIL WAR TOWNHOUSE WITH HER HUSBAND, DAUGHTER AND THEIR DOG LUCY.



BAMBINI LOVE BABY BISCOTTI

Parents Worldwide Trust Heinz for Superior Nutrition and Safety

Stroll down an Italian street with a baby, and you're bound to hear a chorus of "Che bella!" and "Ciao bambino!"

Italians love babies, and they also love Heinz baby food. The company sells baby food in Italy under three brands, including the best-selling Plasmon name.

"You could ask anyone here who makes baby food, and Plasmon would be the answer," Alison Nightingale, global category manager for Infant Feeding, says over cappuccino at a sidewalk café in Milan.

The cachet of the brand is especially important for baby food, and Heinz has plenty of strength in Italy.

The company enjoys about 76 percent of the country's baby food market — nearly 85 percent for jarred foods alone. Plasmon baby biscotti — a plain, crunchy biscuit that has become a staple for just about all bambini — brought in about $100 million last fiscal year, claiming an astounding 88 percent share of infant biscuit sales.

Heinz plans to drive consumption in Italy and the rest of the world partly by expanding the "Environmental Oasis," a well-established system to safeguard baby food quality.

"The essential idea is meeting the needs of mothers who are increasingly concerned about food safety," Nightingale says. "And, we're developing new processes that will further improve the taste and nutrition of our baby foods."

ALISON NIGHTINGALE (LEFT) AND REPORTER CATHERINE ERICKSON MET IN MILAN TO DISCUSS HEINZ'S 76 PERCENT SHARE OF THE ITALIAN BABY FOOD MARKET AND HEINZ'S GROWING APPEAL FOR PARENTS IN DEVELOPING MARKETS, SUCH AS CHINA AND INDIA.

Other developments include:

— Expanded operations in the People's Republic of China, where Heinz will soon produce jarred baby food through a new joint venture and a modern processing plant.

— A campaign to increase baby food consumption in India through television ads aimed at mothers and one-on-one consultations with pediatricians.

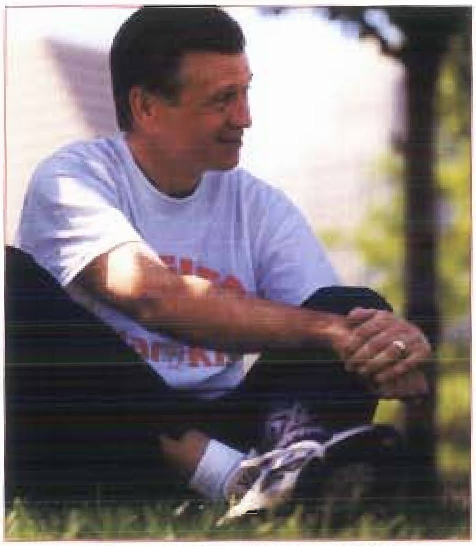
— Initiatives to further grow sales of baby formula in the United Kingdom, partly through new products designed to make preparation easier.

ALL TUNAS ARE NOT CREATED EQUAL

Charlie Makes a TV Comeback in Courtroom Drama

Things are going "swimmingly" at StarKist Seafood. The company has invested millions in improving the taste and texture of its premium, solid white albacore, a process that began with more emphasis on choosing the tastiest fish available. "We're focusing on the fish," says Joe Clancy, group vice president of sales and marketing for StarKist.

The company is promoting its "best quality, best tasting tuna ever" in a nationwide television ad campaign that marks the return of Charlie the Tuna for the first time in 10 years.



JOE CLANCY'S STARKIST TEAM ONCE AGAIN OUTRAN ALL COMPETITORS AND SOLD A RECORD 1 BILLION CANS OF AMERICA'S FAVORITE TUNA.

"Charlie and StarKist have a long history," Clancy says. "At the end of the day, that's really what separates StarKist: our brand equity, along with Charlie."

Charlie, who made his TV debut in 1961, appears in the new ad in a courtroom arguing the merits of improved albacore and passing out tuna sandwiches to jurors. "The idea that all tunas are alike is just all wet," Charlie says.

StarKist is the world's leader in canned tuna. In the U.S. alone, it holds nearly half the market, a slice larger than both of its closest competitors combined. Last fiscal year, the company sold more than 1 billion cans in the U.S. — a record — and had nearly $715 million in sales in North and South America.

StarKist expects product improvements, updated packaging (including easier-open, ring-pull cans), coupons and the ad campaign to help boost its share.

American consumers can try another new taste, thanks to an idea from the United Kingdom. StarKist recently began selling Gourmet's Choice Tuna Fillet in most parts of the U.S. The new premium product is similar to a popular one sold in the U.K. under Heinz's John West brand.

A WORLD AWASH IN KETCHUP

Heinz Foodservice Showers Customers with New Products

If there's any doubt what lies at the heart of Heinz's $1.5 billion global foodservice business, just look at the license plate on Jeff Berger's red sports car. It's imprinted "KETCHUP."

"Ketchup is the lifeblood. It's the cornerstone," says Berger, president of Heinz U.S.A. Foodservice and the company's global leader for its rapidly growing foodservice business.

Heinz sells ketchup to restaurants and cafeterias in bottles, single-serve packets and big dispensers. One of the latest innovations in the U.S. is a tamper-proof 14-ounce red plastic bottle that always looks full. Now being used in several markets, it will be sold nationwide within a year.

"You're going to eat on the run. You're going to take food home and eat it," Berger says. "If you want fries, we have ketchup. If you want salad, we have dressings."

In Europe, the foodservice industry is growing about 10 percent a year, at least triple the U.S. rate. "In the United Kingdom, people talk about watching cooking shows on television, but they don't cook as much," says Lawrence Balfe, managing director of European Foodservice. "That's our opportunity."

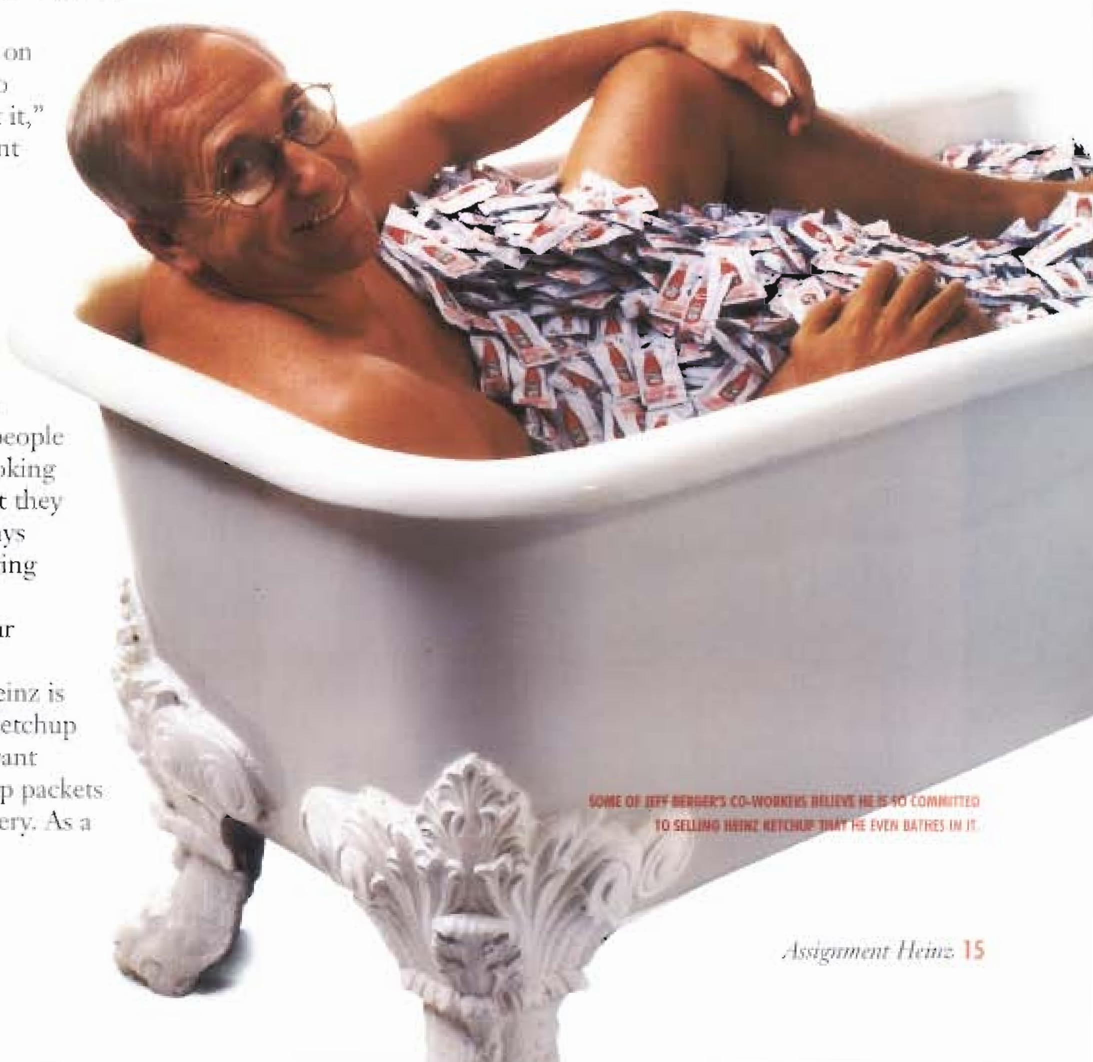
Across the globe, Heinz is working to get Heinz ketchup bottles on every restaurant table and Heinz ketchup packets into every fast-food eatery. As a result, Heinz is one of the fastest-growing foodservice companies in the world.

Other recent developments include:

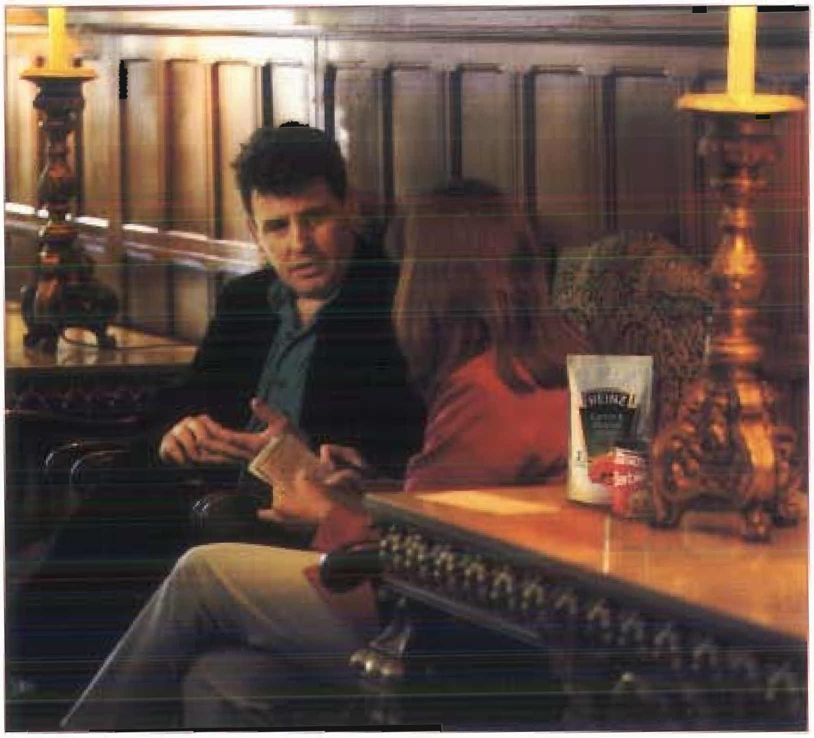
— The successful introduction of seven varieties of single-serve Heinz dipping sauces, including barbecue, cocktail and ranch.

— The popularity of several new varieties in the Chef Francisco frozen soup line, the market leader, with a share of nearly 40 percent.

— The purchase of two companies that make single-serve condiments, such as sauces and jellies. The first company, Serv-A-Portion, based in Belgium, sells across Europe. The second company, Thermo Pac, supplies U.S. restaurants.



SOME OF JEFF BERGER'S CO-WORKERS BELIEVE HE IS SO COMMITTED TO SELLING HEINZ KETCHUP THAT HE EVEN BATHES IN IT.



INNOVATIVE SOUPS AND PASTAS ARE THE KEYS TO NIGEL CLARE'S (LEFT) STRATEGY TO BOOST HEINZ SALES.

DOOR-TO-DOOR CAMPAIGN PROMOTES BRITS' FAVORITE

Barbie, Teletubbies and Pokemon Join the Lineup Of Heroes Starring in Heinz Pasta Meals

"Excuse me, sir. Is there a can of beans in the house?" That question was at the heart of a door-to-door crusade promoting Heinz baked beans throughout the United Kingdom.

Representatives in uniforms in the same turquoise blue as Heinz baked beans labels descended on neighborhoods and knocked on more than 260,000 doors. Households that had a can of the Heinz brand won prizes like four-packs of beans or coupons. Those that didn't could trade in a competitor's brand for a Heinz product.

It caused a lot of excitement, says Nigel Clare, the London-based managing director of European Grocery and the global leader for Convenience Meals.

The sweep helped boost sales of Heinz baked beans in the U.K. to about $215 million, giving the company a market share of nearly 40 percent.

In another innovation, soup sold in a pouch will be on supermarket shelves in the United Kingdom in September. The packaging is very powerful, Clare says. The whole concept is sealed-in freshness.

Pouch soup is an example of how Heinz is sharing ideas around the world. The company first sold the soup in New Zealand under the Wattie's brand name. Sales were so strong, it was introduced in Australia.

Heinz remains the market leader for children's pasta in the U.K. Girls especially love the variety based on Barbie,* which features pasta shaped like bows and necklaces.

Toddlers favor Teletubbies* of TV fame and teens love Pokemon* from video games.

*Trademarks of Mattel, Inc.; Ragdoll Productions (U.K.) Ltd.; and Nintendo of America Inc., respectively

HOT NEW FROZEN FOODS

Boston Market Label Will Be a Big Draw

THE TEST KITCHENS AT HEINZ FROZEN FOOD COMPANY COOK UP "COMFORT FOODS" AND JOHN CARROLL'S FAVORITES — POTATO SNACKS AND WEIGHT WATCHERS ENTREES.

Chicken. Meat loaf. Mashed potatoes. These are just a few of the "comfort foods" Heinz is test-marketing as part of a new line featuring the Boston Market label.

The premium line features a total of 16 home-style meals, entrees and sides.

Consumers told Heinz they wanted the ability to mix and match entrees, meals and sides to make an easy dinner every member of the family would enjoy.

Research shows the Boston Market brand has broad appeal. In early tests, consumers said the frozen foods made by Heinz tasted so good, they couldn't tell the difference between them and dishes prepared in a Boston Market restaurant.

The Boston Market line is just one of several innovations at Heinz Frozen Food. Sales of Weight Watchers Smart Ones entrees are growing at double-digit rates thanks to improved taste, better packaging and appealing television commercials.

Ore-Ida, a $650 million business with a number-one market share in retail frozen potatoes, is poised for some big changes, too. One example: a stand-up, resealable pouch. The new packaging is a big improvement over the bags that now lie in freezer sections.

Two new snacks — Snackin' Fries and Oven Chips — are in stores, and more are being developed. A new campaign will put greater emphasis on young teens, big fans of frozen snacks. "We feel if we talk to teens, the younger kids will follow," says John Carroll, vice president of potato and snacks marketing.

Sounds familiar, right? And what goes great with fries and other frozen snacks? Ketchup, of course.

IT PAYS TO EXCEL

Employees Share Ideas and Build International Brands Instead of Simply Focusing on Local Businesses

Growth. That single word says a lot about what's going on at Heinz these days.

"Operation Excel fosters growth in two ways," says Mike Bertasso, senior vice president of strategy, process and business development. "It develops new initiatives, and it supports them through cost savings that fund marketing."

Examples of these initiatives include the ketchup ad campaign aimed at teens around the world; the test-marketing in supermarkets of a line of frozen dinners, entrees and side dishes carrying the Boston Market name; and the introduction of Pounce Hairball Treatment, a cat treat designed to solve a feline problem.

"TURBO" GROWTH: HEADING THE CHARGE FOR ACCELERATED EXPANSION AND CATEGORY MANAGEMENT UNDER OPERATION EXCEL ARE MIKE MILONE (LEFT) AND MIKE BERTASSO.

As part of the Excel initiative, 16 factories or businesses have been identified for sale or closure thus far. Additional downsizing or expansions will create Manufacturing Centers of Excellence that focus on specific product lines. Instead of supplying one country, like the United Kingdom, a factory could supply an entire continent or region, like Europe.

"The shift to approaching categories globally — instead of by country — is a big part of Operation Excel," Bertasso explains. "Traditionally, Heinz affiliates operated as autonomous national units. Now, Heinz employees worldwide share their ideas and experiences."

The concept is taking hold with Heinz employees worldwide.

"It's fairly simple to take learning from one area and transfer it to another, whether it's related to our manufacturing processes or new product ideas," says Mike Milone, vice president of category development.

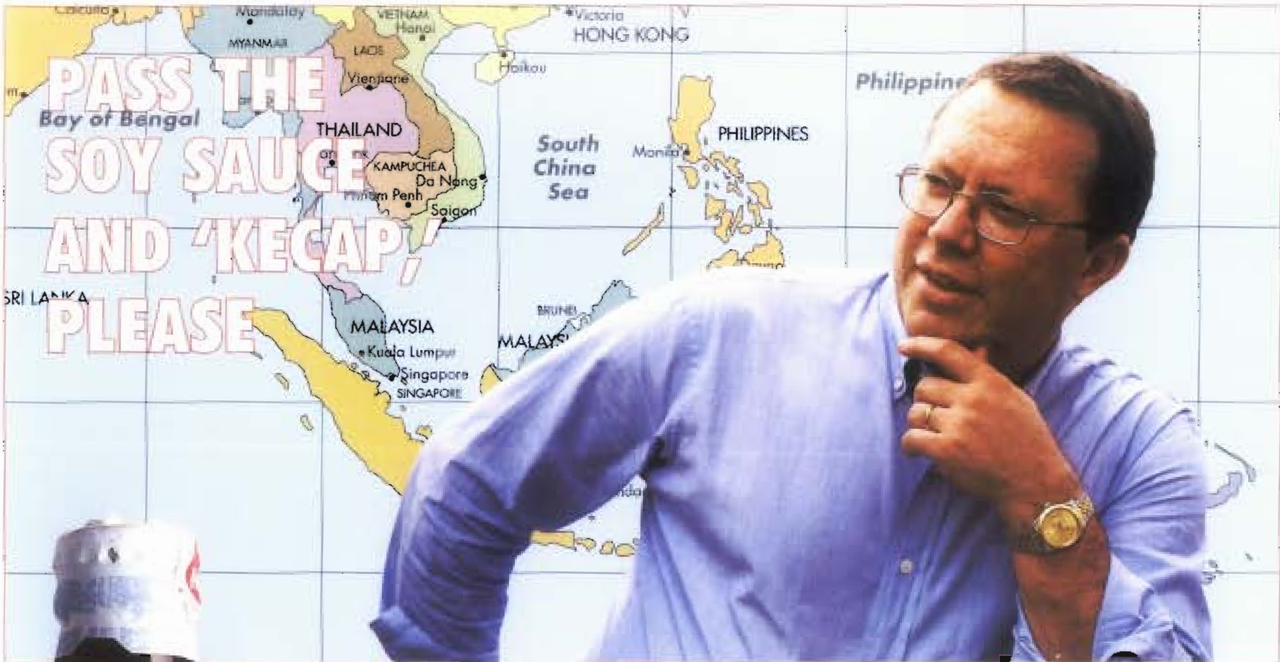
The change means millions of dollars will be saved through global-scale sourcing, selling and distribution.

These changes are essential to thriving in today's competitive markets, where customers are consolidating across geographic boundaries and getting larger every day.

"As our customers consolidate into global supermarket chains, we will leverage our category scale to provide them with number-one brands, global supply, consumer insight and innovation," Milone says. "There's much to be gained by the retailer and the manufacturer working together in this way."

In the U.S., for example, sales brokers who represent Heinz are starting to handle the company's full $4 billion product portfolio, not just one line, like frozen foods. The change meant cutting the number of U.S. brokers from over 200 to five.

PASS THE SOY SAUCE AND 'KECAP,' PLEASE



LOWELL GRUMAN LED THE HEINZ ACQUISITION TEAM TO INDONESIA — THE WORLD'S FOURTH MOST POPULOUS COUNTRY.

Acquisitions play an important role in Heinz's growth around the world. In Indonesia, the company acquired a majority interest in PT Heinz ABC Indonesia, a joint venture to operate the country's leading ketchup and sauce maker.

"This was a transformative acquisition which Bill Johnson had the foresight to champion," says Lowell Gruman, Heinz's regional director for business development in Asia. "It increases our footprint in Asia in so many ways."

The ABC brand is Indonesia's market leader in "kecap," a sweet soy sauce that accompanies virtually every meal as either a condiment or an ingredient. And, it makes Heinz the world's number-two soy sauce company.

The partnership means more than just sales growth and new market power. It means Heinz can market premium soy sauce in other countries in Asia and export it to the United States.

Report from Indonesia

Asian foods are expected to become increasingly popular in the United States, Canada and Europe in the next few years.

"If we want to catch that wave of high growth, we need to have a full menu offering of Asian foods," Gruman says.

Gruman, an American, lives with his family in Singapore — a small island with a population of about 3 million. His territory includes three of the most populated nations on earth: China, India and Indonesia.

Working in Asia for merchant banks for nearly 20 years has enabled Gruman to build strong relationships in the business community.

"In the Asian business world, personal ties are critical," he says. "Acquisitions are an opportunistic business, and here you have to make your own opportunities."

YEAR IN REVIEW AND FINANCIAL RESULTS

GLOBAL BRANDS AND BUSINESSES

Heinz accelerated its growth and brand building in Fiscal 1999. Worldwide net sales for the year rose to $9.3 billion on the strength of sales volume gains by Heinz's leading brands, especially Heinz ketchup. Overall, U.S. operations generated 53% of net sales, and non-U.S. affiliates accounted for the remaining 47%.

BRAND BUILDING

Overall sales volume increased 3.2%, led by the dynamic growth of Heinz ketchup, which poured it on with a 14% increase in U.S. retail sales volume. To unleash the growth potential of ketchup, Heinz selected Leo Burnett Co. to create its first global ketchup advertising campaign.

In Canada, Heinz ketchup held a 65% share of the retail market. Across the Atlantic, U.K. ketchup sales achieved a 58% share. In Spain, tomate frito cooking sauce reached a market share of 36%. In Portugal, Heinz ketchup held an impressive 38% retail share.

Heinz expanded its presence in Asia through a joint venture with Indonesia's leading ketchup and sauce producer, PT Heinz ABC Indonesia. In Thailand, ketchup sales rose 20% following a potato chip dip promotion.

Studies on the health benefits of lycopene, an antioxidant found in processed tomato products (such as ketchup, soups and sauces), helped generate tremendous consumer interest.

To promote school sales, Heinz U.S.A. designed single-serve ketchup packets decorated with Leader of the Packet, a "cool" mascot. The company also rolled out Heinz Dipping Cups, single-serve sauce packages. Heinz Canada bolstered its Chef Francisco foodservice frozen soups with five new varieties. Heinz U.K.'s share of the portion-pack market reached a record high of more than 50%.

Heinz's worldwide infant foods volume rose 2%. In the U.K., Heinz fortified its position as that nation's leading baby food producer by launching Heinz Firsts, meals made especially for toddlers and babies. Heinz Italia held a 76% share of its country's baby food market as its jarred baby food volume grew. Also in Italy, Plasmon baby pasta volume rose almost 12%. New products in Italy included Plasmon Mamma, a milk product for pregnant or nursing mothers. In Australia, Heinz extended its share of the baby food market to 95%.

In the Western Hemisphere, the U.S. launch of Toddler Cuisine was a success as sales exceeded projections. Sales of Heinz jarred infant food in Canada rose 14%. One of Heinz Canada's most successful new varieties was Congee, baby food formulated with Asian tastes in mind. In Venezuela, Alimentos Heinz increased its baby food shipments. Heinz became the first in India to introduce rice cereal-based weaning foods. Heinz-UFE in China unveiled a product for teething infants.

StarKist tuna held the number-one position in the U.S. with a 48% market share. It went upscale with Gourmet's Choice Tuna Fillet. StarKist water-packed tuna became the first tuna accepted into the American Heart Association's Food Certification Program. In the U.K., John West tuna's market share rose to 25%, following a TV campaign. Heinz U.K. also launched two Tuna Light Lunch varieties. In Australia, Greenseas added international flair with new gourmet tuna flavors. Overall, Heinz's worldwide branded seafood volume rose nearly 6%. It reached a 21% share of the global tuna market.

Heinz Pet Products undertook initiatives to revitalize 9-Lives cat food and build its profitable Kibbles 'n Bits and pet treat businesses. Heinz maintained 15% of the nation's dog food segment and about 50% of the growing pet treats business. 9-Lives increased its share of the U.S. canned cat

food market to 26%. Heinz launched Wagwells treats with added vitamins. In Canada, the market share for Kibbles 'n Bits grew 10%, and sales of Techni-Cal pet foods topped the $30 million mark. In Japan, Heinz introduced new dry pet foods. Heinz-Wattie's Chef brand took a 51% share of New Zealand's canned cat food market.

Soups, beans and pasta meals were major ingredients in Heinz's global growth. Heinz U.S.A. remained the leader in private-label soups. Heinz Canada rolled out five ethnic-style soups. Heinz U.K. introduced baked beans in China following success in Poland. Heinz-Wattie introduced two lines of restaurant soups for the Australasia market. In Japan, Heinz's pumpkin soup took home the nation's most distinguished food industry award from the Japanese Canners Association.

Heinz Frozen Food Company — created by the combination of Ore-Ida Foods and Weight Watchers Gourmet Food Company — saw a 16% sales volume increase in Smart Ones brand frozen entrees. Ore-Ida continued to be the leading U.S. brand of retail frozen potatoes with a 45% share, nearly eight times larger than any branded competitor. Sales of Bagel Bites rose 14% in Canada. In South Africa, Heinz created new frozen potato products, including Heinz Waffle Fries.

As part of Operation Excel, Heinz announced plans to divest Weight Watchers International, the weight-loss meetings business.

PRODUCTION AND PROCUREMENT

Operation Excel was the main influence on Heinz's global manufacturing and procurement network. *(See Management's Discussion and Analysis.)* Heinz has identified 16 facilities or businesses worldwide for sale or closure. The company is realigning global manufacturing and distribution, especially in Europe, and establishing Manufacturing Centers of Excellence to centralize production. Heinz announced the downsizing of tuna production at StarKist's plant in Puerto Rico, the consolidation of European convenience meals production at Kitt Green in the U.K., and the expansion of European ketchup and sauces production at the Elst factory in the Netherlands.

Heinz Frozen Food Company announced the closure of a plant in West Chester, Pennsylvania. Frozen pasta production will be shifted from there to its plant in Bloomsburg, Pennsylvania. Heinz entered into an agreement with AmeriCold Logistics in Massillon, Ohio for construction of a warehouse adjacent to its factory.

In South Africa, Heinz outsourced the manufacturing of dry pet food, resulting in the closure of its pet food facility.

El Niño impacted the U.S. procurement of tomatoes, as cool and wet weather delayed harvests. Adverse weather led to a shortfall in crops on the West Coast. Favorable weather in Canada boosted Heinz's tomato harvest there, helping offset the shortfall.

MARKET EXTENSION

Heinz acquired College Inn broths and the Vidalia O's brand of onion rings. Heinz obtained a license to utilize Boston Market restaurant trademarks for packaged retail foods.

In Europe, Heinz bought Sonnen Bassermann, Germany's leading marketer of ready-to-serve soups and meals. Heinz India added a factory in Bangalore to expand tomato paste production. ETA dressings and peanut butter were acquired in New Zealand. Recently, Heinz Foodservice extended its single-serve business with the acquisitions of Thermo Pac, Inc. of Stone Mountain, Georgia; and Serv-A-Portion of Turnhout, Belgium.

PUBLIC SERVICE

The H.J. Heinz Company Foundation awarded $6.3 million in grants to 820 organizations. Heinz U.S.A. was a corporate sponsor of the National Endowment for the Arts. Heinz U.S.A., Heinz U.K. and Heinz Italia shipped baby foods to Kosovo refugees, while StarKist donated tuna to earthquake victims in Colombia. Weight Watchers and the National Alliance of Breast Cancer Organizations supported Breast Cancer Awareness Month. Nature's Recipe Pet Foods sponsored "War Dogs," a documentary about military dogs that served during the Vietnam War. Heinz Canada donated funds to Canadian Food for Children and conducted a symposium on child obesity. Heinz U.K. published a series of consumer booklets on food safety and nutrition issues.

OPERATION EXCEL

In Fiscal 1999, the company announced a transformative growth and restructuring initiative that is expected to generate in excess of $200 million in annual pretax savings and growth in earnings per share of 10 to 12 percent. The initiative, named "Operation Excel," is a multi-year, multi-faceted program that will result in restructuring charges and implementation costs approaching $1.1 billion over four years.

The company's Board of Directors approved Phase I of this multi-year program in Fiscal 1999, which resulted in the recognition of restructuring charges and implementation costs totaling $552.8 million pretax ($1.11 per share). [Note: All earnings per share amounts included in Management's Discussion and Analysis are presented on an after-tax diluted basis.] Pretax charges of $396.4 million are classified as cost of products sold and $156.4 million as selling, general and administrative expenses ("SG&A").

The major components of Operation Excel include: creating manufacturing centers of excellence; focusing the product portfolio; realigning the company's management teams; and investing in growth initiatives.

Creating manufacturing centers of excellence will result in significant changes to the company's manufacturing footprint including the following Phase I initiatives:

- Closing the Harlesden factory in London, England and focusing the Kitt Green factory in Wigan, England on canned beans, soups and pasta production and focusing the Elst factory in the Netherlands on tomato ketchup and sauces
- Downsizing the Puerto Rico tuna processing facility and focusing this facility on lower volume/higher margin products
- Focusing the Pittsburgh, Pennsylvania factory on soup and baby food production and shifting other production to existing facilities
- Closing the West Chester, Pennsylvania factory and shifting pasta production to the Bloomsburg, Pennsylvania factory
- Consolidating manufacturing capacity in the Asia/Pacific region
- Closing the Zabreh, Czech Republic factory and disposing of the dairy business and transferring the infant formula business to the Kendal, England factory
- Downsizing the Pocatello, Idaho factory by shifting Bagel Bites production to the Ft. Myers, Florida factory, and shifting certain Smart Ones entrée production to the Massillon, Ohio factory
- Closing the Redditch, England factory and shifting production to the Telford, England factory and the Turnhout factory in Belgium.

The company will focus the portfolio of product lines on the following six core food categories: ketchup, condiments and sauces; frozen foods; tuna; soup, beans and pasta meals; infant foods; and pet products. A consequence of this focus on the core categories is the potential sale of the Weight Watchers classroom business. Additionally, seven other smaller businesses, which had combined annual revenues of approximately $80 million, will be disposed.

Realigning the company's management teams will provide processing and product expertise across the regions of North America, Europe and Asia/Pacific. Specifically, Phase I of Operation Excel will:

- Create a single U.S. frozen food headquarters, resulting in the closure of the company's Ore-Ida head office in Boise, Idaho
- Consolidate many European administrative support functions.

Growth initiatives include additional investments in marketing and pricing programs for our core businesses, particularly in retail and foodservice ketchup, frozen foods and tuna.

Phase I restructuring charges and implementation costs recognized in Fiscal 1999 totaled $552.8 million, of which $141.7 million was recognized in the third quarter of Fiscal 1999, and $411.1 million was recognized in the fourth quarter of Fiscal 1999. In addition to the restructuring charges recognized, the company expects to spend approximately $150 million in Fiscal 2000 for Phase I implementation costs. These implementation costs will include consulting fees, factory start-up expenses, employee relocation expenses and equipment relocation expenses, and will be expensed as they are incurred. Capital expenditures related to these Phase I initiatives will total approximately $165 million, which will be spent in Fiscal 2000 and Fiscal 2001.

Phase I initiatives will result in the closure or exit of 16 factories or businesses. Management estimates that these actions will impact approximately 5,500 employees with a net reduction in the workforce of 4,000, after expansion of certain facilities. During Fiscal 1999, the company's workforce was reduced by approximately 200 employees principally through the closure of Ore-Ida's Boise head office and through the divestiture of the Clarksville, Arkansas sweet potato business.

The expected pretax savings to be generated from Phase I of Operation Excel will be $50 million in Fiscal 2000 and will grow to $100 million in Fiscal 2001 and $150 million per year, thereafter, with non-cash savings of less than $15 million in any year.

Future phases of Operation Excel will also be aimed at generating manufacturing efficiencies, focusing the product portfolio and realigning management teams, and will result in the recognition of additional restructuring charges and implementation costs. Specific initiatives are in the development stages and have not yet been approved by the company's Board of Directors. These future initiatives currently envision the closure of at least four additional factories, an additional net workforce reduction of 1,000 employees and could result in restructuring charges and implementation costs of up to $400 million, a portion of which will be recognized in Fiscal 2000.

Successful execution of all phases of Operation Excel will help the company achieve the following targets over the next four years:

- $200 million in annual ongoing pretax savings upon full implementation
- Volume growth of 3 to 4 percent per year
- Earnings per share growth of 10 to 12 percent per year
- Gross margins of 42%
- Return on invested capital of 40%
- $2.5 billion of free cash flow.

PROJECT MILLENNIA

Background

During the fourth quarter of Fiscal 1997, the company announced a reorganization and restructuring program named "Project Millennia." The reorganization plan was designed to strengthen the company's core businesses and improve profitability and global growth. Key initiatives were focused on process changes and product line rationalizations.

Process change initiatives included:

- Changing our go-to-market strategies, including the elimination of inefficient end-of-quarter trade promotion practices
- Outsourcing certain manufacturing operations and eliminating excess manufacturing capacity, while adding capacity for certain products to support product transfers from closed facilities
- Focusing the company's U.S. Weight Watchers classroom business and introducing a new weight loss program (1·2·3 Success™) in the U.S.
- Developing a Pan-European category-based strategy in Europe.

Product line rationalization initiatives included:
- Divestiture of the Ore-Ida frozen foodservice business
- Divestiture of the New Zealand ice cream business
- Divestiture of the Weight Watchers dry and refrigerated businesses
- Divestiture of the U.S. frozen pizza and pizza topping business
- Exiting the Weight Watchers Personal Cuisine business
- Exiting the "dinner" product line from The Budget Gourmet business
- Converting all Weight Watchers entrées to the Smart Ones brand and reformulating the product and changing the packaging.

Total restructuring charges and implementation costs recognized in Fiscal 1997 were $647.2 million pretax. The restructuring program was expected to result in a reduction of the global workforce of approximately 2,500 employees and the closure or sale of 25 plants throughout the world. Plant closures or sales included: five Ore-Ida factories, three New Zealand ice cream factories, four North American bakery factories, three U.S. frozen pizza and pizza topping facilities, two New Zealand food processing factories, the Tracy, California tomato processing factory, the Kankakee, Illinois pet food factory and six smaller factories.

The anticipated benefits of the plan were:
- Delivering approximately $120 million of ongoing pretax savings in Fiscal 1998 growing to $200 million of annual ongoing pretax savings
- Improving gross margins from 36% to 40% by Fiscal 2001
- Generating over $300 million of working capital reductions in the first year of the program
- Generating over $1 billion of free cash flow in the first year of the program.

Project Millennia Status Update

The company has substantially completed the implementation of Project Millennia. As of April 28, 1999, the company has utilized $601.4 million of the original $647.2 million charge. Since 1997, the company has also spent an additional $106.4 million of implementation costs, consisting primarily of relocation, consulting, training and start-up costs, which were expensed as incurred.

During Fiscal 1998, the company utilized $116.4 million of severance and exit accruals to facilitate the process change and product line rationalization initiatives, described above. Seventeen factories were sold or closed and the net workforce was reduced by 1,800 employees. The company spent an additional $84.1 million of implementation costs, consisting primarily of relocation, consulting, training and start-up costs, which were expensed as incurred. Ongoing pretax savings realized in Fiscal 1998 were approximately $125 million.

During Fiscal 1999, the company utilized $48.6 million of the severance and exit accruals, principally on the realignment of the pet food manufacturing and distribution operations, streamlining of European operations, consolidation of the Heinz-Wattie businesses in Australia and New Zealand, contractual lease commitments associated with the restructuring of the U.S. Weight Watchers meeting system, and costs related to the exit of certain of the company's frozen entrée brands.

During the year, the company also incurred $22.3 million pretax of additional costs related to the continued implementation of Project Millennia. These costs consisted principally of start-up, consulting and training costs.

During the second quarter of Fiscal 1999, the company reversed $25.7 million of unutilized Project Millennia accruals for severance and exit costs. In Europe, severance accruals were reduced $9.1 million, principally as a result of lower severance payments in Italy versus the original estimates and fewer

selling, general and administrative terminations in the U.K. In the U.S., $16.6 million of the accrual for exit costs was reversed principally as a result of avoided contractual liabilities related to product returns due to the sale of the Weight Watchers dry and refrigerated business. The Weight Watchers frozen entrée business also experienced lower costs in exiting certain of the company's frozen entrée product offerings.

As of April 28, 1999, the company has closed or divested 23 of the 25 plants (five in Fiscal 1997, 17 in Fiscal 1998, and one in Fiscal 1999) scheduled for closure or divestiture. The remaining two facilities (one tuna processing facility in Australia and one tomato processing facility in Spain) have been publicly announced and will be closed by the end of October 1999.

As of April 28, 1999, Project Millennia has resulted in a net workforce reduction of 2,100 employees. The two remaining plant closures described above will result in an additional workforce reduction of 150 employees. The total workforce reduction is now estimated to be 2,250 compared to the 2,500 originally estimated. The lower net headcount reductions as well as the lower actual severance payments compared to the original estimates have resulted in the reversal of original severance accruals of $9.1 million as described above.

The financial goals of the project have been achieved as follows:

- Pretax savings of approximately $190 million, of which $10 million are non-cash savings, were realized in Fiscal 1999
- Gross profit margins, excluding restructuring related items, increased to 38.4% in Fiscal 1998 and to 40.3% in Fiscal 1999
- Operating working capital was reduced by approximately $350 million in the first year of the program
- More than $1.3 billion of free cash flow was generated in the first year of the program.

As of April 28, 1999, there are $20.1 million of remaining Project Millennia accruals. These accruals relate to the finalization of plant closures, remaining costs related to the exit of certain of the company's frozen entrée brands, and contractual lease commitments associated with the restructuring of the U.S. Weight Watchers meeting system. With the exception of the contractual lease commitment costs, all other spending will be completed by the end of the second quarter of Fiscal 2000.

RESULTS OF OPERATIONS

In Fiscal 1999, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes new standards for reporting and disclosure relating to segments and geographic data. The company's segments are primarily organized by geographical area. The composition of segments and measure of segment profitability is consistent with that used by the company's management. Descriptions of the company's reportable segments are as follows:

- *North American Dry* – This segment includes the company's North American dry grocery and foodservice operations. This segment consists of Heinz U.S.A., Heinz Pet Products, Star-Kist Seafood and Heinz Canada. This segment's operations include products in all of the company's core categories.
- *North American Frozen* – This segment consists of Heinz Frozen Food Company, which markets frozen potatoes, entrées and appetizers.
- *Europe* – This segment includes the company's operations in Europe and sells products in all of the company's core categories.
- *Asia/Pacific* – This segment includes the company's operations in New Zealand, Australia, Japan, China, South Korea, Indonesia, Thailand and India. This segment's operations include products in all of the company's core categories.
- *Other Operating Entities* – This segment includes the company's Weight Watchers classroom business as well as the company's operations in Africa, Venezuela and other areas which sell products in all of the company's core categories.

1999 versus 1998: Sales for Fiscal 1999 increased $90.3 million, or 1.0%, to $9.30 billion from $9.21 billion in Fiscal 1998. Volume increased sales by $290.2 million, or 3.2%, acquisitions increased sales by $188.2 million, or 2.0%, and favorable pricing contributed $34.8 million, or 0.4%. The unfavorable impact of foreign exchange translation rates reduced sales by $210.3 million, or 2.3%, and divestitures decreased sales by $212.6 million, or 2.3%. Domestic operations contributed approximately 53% of consolidated sales in both Fiscal 1999 and Fiscal 1998.

Sales of the North American Dry segment increased $127.4 million, or 3.2%, primarily due to sales volume increases of $156.6 million, or 4.0%. Volume increases in Heinz ketchup, seafood and condiments were partially offset by a volume decrease in canned dog food. Acquisitions, net of divestitures, contributed $36.9 million, or 0.9%, to the sales increase, primarily due to the acquisition of the College Inn brand of canned broths. These increases were partially offset by unfavorable pricing of $36.1 million, or 0.9%. Price decreases were noted in seafood and pet food. The unfavorable fluctuation of the Canadian dollar caused a $30.0 million, or 0.8%, decrease in net sales.

The North American Frozen segment's sales decreased $61.7 million, or 5.7%. Divestitures, net of acquisitions, accounted for $71.2 million, or 6.6%, of the decrease, primarily due to the divestiture of the Ore-Ida frozen foodservice business in the first quarter of Fiscal 1998. Price decreases, primarily in frozen potatoes, contributed $13.5 million, or 1.2%, to the sales decrease. Volume increases of $23.0 million, or 2.1%, were largely due to Smart Ones frozen entrées, partially offset by decreased volume in appetizers.

Sales in Europe increased $128.1 million, or 5.5%, primarily due to acquisitions, which contributed $94.2 million, or 4.0%. Acquisitions impacting the year-to-year sales dollar comparison include the Fiscal 1998 acquisition of John West Foods Limited in the United Kingdom and the Fiscal 1999 acquisition of the convenience meals business of Sonnen Bassermann in Germany and other smaller acquisitions. Exchange rates had a favorable impact of $21.0 million, or 0.9%, primarily in Italy. Favorable pricing increased sales by $13.5 million, or 0.6%, while sales volume was flat.

Sales in Asia/Pacific decreased $61.1 million, or 5.7%. The unfavorable impact of foreign exchange translation rates reduced sales by $128.1 million, or 11.9%, primarily due to sales in New Zealand, Australia, Korea and India. This decrease was partially offset by favorable volume of $33.8 million, or 3.1%, and favorable price of $21.2 million, or 2.0%. Acquisitions also contributed $12.0 million, or 1.1%.

Sales of Other Operating entities decreased $42.4 million, or 5.3%. Divestitures, primarily the bakery products unit, decreased sales by $122.5 million, or 15.5%. The unfavorable impact of foreign exchange translation rates decreased sales by $73.1 million, or 9.2%, principally in Africa. These decreases were partially offset by volume increases of $77.4 million, or 9.8%, largely due to the Weight Watchers classroom business. In addition, price increases contributed $49.6 million, or 6.3%, and acquisitions, primarily in South Africa, contributed $26.2 million, or 3.3%, to sales.

The following tables provide a comparison of the company's reported results and the results excluding restructuring related items for Fiscal 1999 and Fiscal 1998.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	FISCAL YEAR ENDED APRIL 28, 1999 GROSS PROFIT	OPERATING INCOME	NET INCOME	PER SHARE
Reported results	$3,354.7	$1,109.3	$474.3	$ 1.29
Operation Excel restructuring and implementation costs	396.4	552.8	409.7	1.11
Project Millennia implementation costs	14.7	22.3	14.3	0.04
Reversal of unutilized Project Millennia accruals	(20.7)	(25.7)	(16.4)	(0.04)
Gain on sale of bakery products unit	–	(5.7)	0.6	–
Results excluding restructuring related items	$3,745.1	$1,653.0	$882.4	$ 2.40

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	FISCAL YEAR ENDED APRIL 29, 1998 GROSS PROFIT	OPERATING INCOME	NET INCOME	PER SHARE
Reported results	$3,498.1	$1,520.3	$801.6	$ 2.15
Gain on sale of Ore-Ida frozen foodservice business	–	(96.6)	(53.1)	(0.14)
Project Millennia implementation costs	35.7	84.1	53.0	0.14
Results excluding restructuring related items	$3,533.8	$1,507.9	$801.4	$ 2.15

(Note: Totals may not add due to rounding.)

Gross profit decreased $143.3 million to $3.35 billion from $3.50 billion in Fiscal 1998. The gross profit margin decreased to 36.1% from 38.0%. Excluding the restructuring related items identified above, gross profit would have increased $211.4 million, or 6.0%, to $3.75 billion from $3.53 billion and the gross profit margin would have increased to 40.3% from 38.4%. Europe accounted for $156.5 million of this increase due to improvements in the baby food business in Italy, the favorable impact of foreign exchange translation rates and acquisitions. North American Dry's gross profit increased $56.7 million due to cost savings from Project Millennia, stronger sales volume and acquisitions; partially offset by the disappointing performance of the domestic pet food business. Other Operating entities' gross profit increased $41.5 million due to improvements in the Weight Watchers classroom business, attributable to the Weight Watchers 1·2·3 Success™ Plan. North American Frozen's gross profit decrease of $24.0 million was due to the divestiture of the Ore-Ida frozen foodservice business in Fiscal 1998 and increased competitive activities for frozen potatoes, partially offset by the strong performance of Smart Ones frozen entrées. The Asia/Pacific segment's gross profit decreased $20.6 million, or 5.4%; however, excluding the unfavorable impact of foreign exchange translation rates ($47.6 million), primarily in New Zealand and Australia, gross profit increased $27.0 million, or 7.1%.

SG&A increased $267.7 million to $2.25 billion from $1.98 billion and increased as a percentage of sales to 24.1% from 21.5%. Excluding restructuring related items identified above, SG&A increased $66.2 million to $2.09 billion from $2.03 billion and increased as a percentage of sales to 22.5% from 22.0%. Marketing increases were noted in the North American Dry segment primarily due to a focus on Heinz ketchup and in Europe where the company has been aggressively promoting ketchup and beans. These increases were partially offset by decreased marketing expense in the North American Frozen segment as a result of establishing low everyday list prices for The Budget Gourmet line of frozen entrées. Excluding marketing, SG&A was stable as a percentage of sales year-on-year.

Total marketing support (including trade and consumer promotions and media) increased 8.4% to $2.22 billion from $2.05 billion on a sales increase of 1.0%. Advertising costs to support the company's key brands increased 3.0% to $373.9 million in Fiscal 1999 from $363.1 million in Fiscal 1998.

Operating income decreased $411.0 million, or 27.0%, to $1.11 billion from $1.52 billion reported last year. Excluding the restructuring related items in both years, operating income increased $145.2 million, or 9.6%, to $1.65 billion from $1.51 billion last year. This increase was primarily due to the increase in gross profit, partially offset by increased marketing and selling and distribution costs. Domestic operations provided approximately 57% and 59% of operating income in Fiscal 1999 and Fiscal 1998, respectively. Excluding the restructuring related items in both years, domestic operations provided approximately 55% and 57% of operating income in Fiscal 1999 and Fiscal 1998, respectively.

The North American Dry segment's operating income decreased $80.2 million, or 10.1%, to $717.0 million from $797.2 million last year. Excluding the restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), this segment's operating income increased $8.6 million, or 1.0%, to $834.6 million from $826.0 million. Excluding the results of the domestic pet food business, the North American Dry segment experienced double-digit operating income growth due to strong sales volume and acquisitions, primarily the College Inn brand of canned broths, as well as cost savings from Project Millennia. The domestic pet food business was negatively impacted by higher costs associated with the introduction of the 9-Lives four pack, an unfavorable mix shift, significant volume declines in canned dog food and ineffective trade spending, all of which the company is aggressively working to correct.

The North American Frozen segment reported $80.2 million of operating income in Fiscal 1999 versus $258.2 million in Fiscal 1998. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $12.7 million, or 7.4%, to $183.4 million from $170.7 million. The increase is primarily due to favorable operating results of the Smart One's frozen entrée line; partially offset by the retail frozen potato business, where prices have been reduced in order to recapture market share.

Europe's operating income decreased $140.7 million, or 36.4%, to $246.2 million from $386.9 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $61.7 million, or 15.2%, to $467.2 million from $405.4 million. This increase was primarily due to favorable operating results in the U.K. and Italy due to increased sales prices and acquisitions, partially offset by increased marketing spending described above.

Asia/Pacific's operating income decreased $46.7 million, or 34.2%, to $89.8 million from $136.5 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $3.3 million to $145.7 million from $142.3 million last year. Strong performances in all of the company's Asia/Pacific businesses more than offset the unfavorable impact of foreign exchange translation rates, which reduced operating income by approximately $19.5 million.

Other Operating entities reported an increase in operating income of $42.0 million to $95.7 million from $53.7 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $58.4 million, or 91.8%, to $122.0 million from $63.6 million. The increase is primarily due to the exceptional performance of the Weight Watchers 1·2·3 Success™ Plan. The unfavorable fluctuation of foreign exchange translation rates, primarily in Africa, caused a $12.5 million decrease in operating income.

Other income and expenses totaled $274.2 million in Fiscal 1999 compared to $265.3 million in Fiscal 1998. Interest expense was relatively flat year-on-year as the increase in average borrowings was offset by lower interest rates. Interest income decreased $7.6 million, or 23.2%, to $25.1 million from $32.7 million due to decreased invested funds and significantly lower interest rates on investments, primarily in Italy.

The effective tax rate for Fiscal 1999 was 43.2% compared to 36.1% last year. This year's higher rate includes the impact of restructuring expenses in lower tax rate jurisdictions and nondeductible expenses related to the restructuring. Excluding the restructuring related items noted above, the effective rate for Fiscal 1999 was 36.0% compared to 35.5% last year. The Fiscal 1998 effective tax rate reflects the benefits of tax legislation in Italy and the United Kingdom. (See Note 5 to the Consolidated Financial Statements.)

Net income decreased $327.2 million to $474.3 million from $801.6 million last year and earnings per share decreased to $1.29 from $2.15. Excluding the restructuring related items discussed above, net income increased $81.0 million, or 10.1%, to $882.4 million in Fiscal 1999 from $801.4 million in Fiscal 1998, and earnings per share increased to $2.40 from $2.15.

The impact of fluctuating exchange rates for Fiscal 1999 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

1998 versus 1997: Sales for Fiscal 1998 decreased $147.7 million, or 1.6%, to $9.21 billion from $9.36 billion in Fiscal 1997. The sales decrease was primarily due to divestitures, which reduced sales by $617.0 million, or 6.6%, and the unfavorable effect of foreign exchange translation rates, which reduced sales by $285.9 million, or 3.1%. Sales volume increased $286.8 million, or 3.1%. In addition, acquisitions increased sales by $332.0 million, or 3.5%, and favorable pricing increased sales by $136.4 million, or 1.5%. Domestic operations contributed approximately 53% of consolidated sales in Fiscal 1998, compared to approximately 55% in Fiscal 1997.

Sales of the North American Dry segment increased $236.5 million, or 6.4%, primarily due to sales volume increases of $109.2 million, or 3.0%, and favorable pricing of $95.2 million, or 2.6%. Volume increases were noted in Heinz ketchup and soups, partially offset by a volume decrease in canned dog food. Price increases were noted in Heinz ketchup, seafood and infant foods. The Fiscal 1997 Canadian acquisitions of Martin Feed Mills Limited and the canned beans and pasta business of Nestlé Canada Inc. contributed $42.5 million, or 1.1%, to the increase in net sales. The unfavorable fluctuation of the Canadian dollar exchange translation rate caused a $10.4 million, or 0.3%, decrease in net sales.

The North American Frozen segment's sales decreased $475.6 million, or 30.7%. Divestitures accounted for $478.0 million, or 30.8%, of the decrease, primarily due to the divestiture of the Ore-Ida frozen foodservice business in the first quarter of Fiscal 1998. Volume increases of $41.3 million, or 2.6%, primarily in Ore-Ida retail frozen potatoes, were offset by price declines of $38.9 million, or 2.5%. In Fiscal 1998, the company implemented "price-based costing" for The Budget Gourmet brand of frozen entrées. "Price-based costing" refers to a strategy whereby the selling price which should drive consumer demand is determined, followed by designing product specifications that will provide adequate margins at the selling price. This strategy turned around the negative volume trends noted in Fiscal 1997 with a volume increase in Fiscal 1998. In addition, the company also focused on the Smart Ones brand of frozen entrées from Weight Watchers, resulting in a volume increase as well.

Sales in Europe increased $177.9 million, or 8.3%, primarily due to acquisitions, net of divestitures, which contributed $207.0 million, or 9.6%, (primarily John West Foods Limited in the United Kingdom), volume increases of $46.3 million, or 2.2%, and price increases of $27.1 million, or 1.3%. Volume increases were experienced in seafood, infant foods and weight loss entrées. These increases were partially offset by the unfavorable effect of foreign exchange translation rates, which reduced European sales by $102.5 million, or 4.8%, primarily in Italy.

Sales of Asia/Pacific declined $148.0 million, or 12.1%. Divestitures accounted for $92.6 million, or 7.6%, of the decrease, primarily due to the divestiture of the New Zealand ice cream business in the fourth quarter of Fiscal 1997. The unfavorable impact of foreign exchange translation rates, primarily in New Zealand, Australia, Korea and Japan, reduced sales by $130.0 million, or 10.6%. These decreases were partially offset by acquisitions, which increased sales by $32.3 million, or 2.6%. In addition, pricing increased $25.2 million, or 2.1%, and volume increased $17.1 million, or 1.4%.

Sales of Other Operating entities increased $61.5 million, or 8.4%, due to volume increases of $73.0 million, or 10.0%, and price increases of $27.7 million, or 3.8%. Strong volume increases were experienced in the Weight Watchers classroom business, which benefited from the introduction of the Weight Watchers 1·2·3 Success™ Plan in the U.S. Acquisitions, net of divestitures contributed $3.8 million, or 0.5%. The unfavorable impact of foreign exchange translation rates reduced sales by $43.0 million, or 5.9%, primarily due to fluctuations in Africa.

The following tables provide a comparison of the company's reported results and the results excluding restructuring related items for Fiscal 1998 and Fiscal 1997.

	FISCAL YEAR ENDED APRIL 29, 1998			
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	GROSS PROFIT	OPERATING INCOME	NET INCOME	PER SHARE
Reported results	$3,498.1	$1,520.3	$801.6	$ 2.15
Gain on sale of Ore-Ida frozen foodservice business	–	(96.6)	(53.1)	(0.14)
Project Millennia implementation costs	35.7	84.1	53.0	0.14
Results excluding restructuring related items	$3,533.8	$1,507.9	$801.4	$ 2.15

	FISCAL YEAR ENDED APRIL 30, 1997			
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	GROSS PROFIT	OPERATING INCOME	NET INCOME	PER SHARE
Reported results	$2,971.9	$ 756.3	$301.9	$ 0.81
Project Millennia restructuring charge	477.8	647.2	409.4	1.09
Gain on sale of New Zealand ice cream business	(72.1)	(72.1)	(44.9)	(0.12)
Gain on sale of real estate in the United Kingdom	(13.2)	(13.2)	(8.5)	(0.02)
Results excluding restructuring related items	$3,364.4	$1,318.2	$657.9	$ 1.76

(Note: Totals may not add due to rounding.)

Gross profit increased $526.2 million to $3.50 billion from $2.97 billion, and the gross profit margin increased to 38.0% from 31.8%. Excluding restructuring related items identified above, gross profit increased $169.3 million, or 5.0%, to $3.53 billion, or 38.4% of sales, from $3.36 billion, or 36.0% of sales. This increase was primarily noted in the North American Dry segment, which benefited from price increases and reduced trade allowances resulting from the discontinuance of inefficient end-of-quarter trade promotions, cost savings resulting from Project Millennia and a favorable product mix. The sale of the lower margin Ore-Ida frozen foodservice business contributed to an improved gross profit margin in the North American Frozen segment. Gross profit in Europe increased due to favorable sales pricing, volume and acquisitions, primarily John West Foods Limited in the U.K.; partially offset by the unfavorable impact of foreign exchange translation rates ($45.4 million), primarily in Italy.

SG&A decreased $237.9 million to $1.98 billion from $2.22 billion and decreased as a percentage of sales to 21.5% from 23.7%. Excluding restructuring related items in both years, SG&A decreased $20.3 million, or 1.0%, to $2.03 billion from $2.05 billion and increased slightly as a percentage of sales to 22.0% from 21.9%. Excluding restructuring related items in both years, increased marketing and general and administrative expenses were offset by lower selling and distribution expenses attributable to cost savings resulting from Project Millennia.

Total marketing support (including trade and consumer promotions and media) remained relatively constant on a sales decrease of 1.6%. However, advertising costs to support the company's key brands increased 13.8% to $363.1 million in Fiscal 1998 from $319.0 million in Fiscal 1997.

Operating income increased to $1.52 billion from $756.3 million reported in Fiscal 1997. Excluding the restructuring related items in both years, operating income increased $189.7 million, or 14.4%, to $1.51 billion from $1.32 billion. This increase was primarily due to the increase in gross profit, as SG&A expenses were relatively flat year-on-year. Domestic operations provided approximately 59% of operating income in Fiscal 1998 compared to approximately 23% of operating income in Fiscal 1997. Excluding restructuring related items in both years, domestic operations provided 57% of operating income in Fiscal 1998 versus approximately 53% of operating income in Fiscal 1997.

The North American Dry segment's operating income increased $354.7 million to $797.2 million from $442.5 million reported in Fiscal 1997. Excluding the restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income of the North American Dry segment increased $118.1 million, or 16.7%, to $826.0 million from $707.9 million. The North American Frozen segment reported operating income of $258.2 million in Fiscal 1998 versus an operating loss of $4.7 million in Fiscal 1997. Excluding the restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $40.3 million, or 30.9%, to $170.7 million from $130.4 million. For both of these segments, Fiscal 1997 operating income was negatively impacted by the company's decision to eliminate inefficient end-of-quarter trade promotion practices, which significantly reduced sales.

Europe's operating income increased $70.3 million, or 22.2%, to $386.9 million from $316.6 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $30.2 million, or 8.1%, to $405.4 million from $375.2 million. This increase was primarily due to price increases, stronger sales volume and favorable product mix as well as acquisitions, primarily John West Foods Limited in the U.K., partially offset by unfavorable foreign exchange translation rates, primarily in Italy.

Asia/Pacific's operating income decreased $35.1 million, or 20.4%, to $136.5 million from $171.6 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $6.1 million, or 4.5%, to $142.3 million from $136.2 million in Fiscal 1997. In local currency, operating income experienced strong double-digit growth due to favorable pricing in Australia and New Zealand; offset by unfavorable foreign exchange translation rates.

Other Operating entities reported an increase in operating income of $118.0 million to $53.7 million from an operating loss of $64.3 million. Excluding restructuring related items in both years (see Note 14 to the Consolidated Financial Statements), operating income increased $13.4 million, or 26.6%, to $63.6 million from $50.2 million. The increase is primarily due to the Weight Watchers classroom business, which benefited from the introduction of the Weight Watchers 1·2·3 Success™ Plan in the United States and streamlining efforts of Project Millennia, partially offset by an unfavorable fluctuation of foreign exchange translation rates, primarily in Africa.

Other income and expenses totaled $265.3 million in Fiscal 1998 compared to $277.2 million in Fiscal 1997. Net interest expense decreased $9.4 million, or 4.0%, to $226.0 million from $235.4 million due mainly to lower average borrowings.

The effective tax rate was 36.1% in Fiscal 1998 compared to 37.0% in Fiscal 1997. The Fiscal 1998 effective tax rate reflects the benefits of tax legislation in Italy and the United Kingdom. (See Note 5 to the Consolidated Financial Statements.)

Net income increased $499.7 million to $801.6 million from $301.9 million and earnings per share increased to $2.15 from $0.81. Excluding restructuring related items in both years, net income increased $143.5 million, or 21.8%, to $801.4 million in Fiscal 1998 from $657.9 million in Fiscal 1997 and earnings per share increased to $2.15 per share from $1.76 per share.

The impact of fluctuating exchange rates for Fiscal 1998 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

LIQUIDITY AND FINANCIAL POSITION

Return on average shareholders' equity ("ROE") was 23.6% in Fiscal 1999, 34.4% in Fiscal 1998 and 11.7% in Fiscal 1997. Excluding the restructuring related items described above, ROE was 39.9% in Fiscal 1999, 34.4% in Fiscal 1998 and 23.9% in Fiscal 1997. Pretax return on average invested capital ("ROIC") was 20.8% in Fiscal 1999, 27.0% in Fiscal 1998 and 12.6% in Fiscal 1997. Excluding the restructuring related items described above, ROIC was 30.0%, 26.8% and 21.4% in Fiscal 1999, Fiscal 1998 and Fiscal 1997, respectively.

Cash provided by operating activities decreased to $910.1 million in Fiscal 1999, compared to $1.07 billion in Fiscal 1998 and $875.0 million in Fiscal 1997. The decrease in Fiscal 1999 versus Fiscal 1998 was primarily the result of higher working capital requirements. In order to facilitate the anticipated plant shutdowns and reconfigurations for Operation Excel, the company has increased inventory levels at certain locations.

Cash used for investing activities totaled $390.5 million in Fiscal 1999, compared to providing $27.2 million in Fiscal 1998. Acquisitions in the current year required $269.0 million, compared to $142.1 million in the prior year. Fiscal 1999 acquisitions included the College Inn brand of canned broths, a joint venture with ABC Indonesia, a leading provider of ketchup, sauces and condiments, and other smaller acquisitions. (See Note 2 to the Consolidated Financial Statements.) Divestitures provided $180.4 million in Fiscal 1999, primarily the sale of the company's bakery products unit, compared to $494.7 million in Fiscal 1998, primarily the sale of the Ore-Ida frozen foodservice business. (See Note 3 to the Consolidated Financial Statements.)

Capital expenditures totaled $316.7 million in Fiscal 1999 and $373.8 million in Fiscal 1998. Both years reflect expenditures for productivity improvements and plant expansions, principally at the company's North American Dry and European segments.

Purchases and sales/maturities of short-term investments decreased in Fiscal 1999. The company periodically sells a portion of its short-term investment portfolio in order to reduce its borrowings.

Financing activities used $515.5 million in Fiscal 1999 compared to $1.15 billion in Fiscal 1998. Net funds borrowed were $268.3 million in Fiscal 1999 versus net repayments of $306.2 million in Fiscal 1998. Cash used for dividends paid to shareholders increased by $32.2 million, to $484.8 million from $452.6 million in Fiscal 1998. Treasury stock purchased totaled $410.1 million (7.5 million shares) in Fiscal 1999 versus $677.2 million (13.6 million shares) in Fiscal 1998. In Fiscal 1999, proceeds from the exercise of stock options provided $77.2 million versus $201.0 million in Fiscal 1998.

The average amount of short-term debt outstanding (excluding domestic commercial paper, all of which is long-term) during Fiscal 1999, Fiscal 1998 and Fiscal 1997 was $453.9 million, $556.3 million and $520.5 million, respectively. Total short-term debt had a weighted-average interest rate during Fiscal 1999 of 6.3% and at year-end of 5.3%. The weighted-average interest rate on short-term debt during Fiscal 1998 was 6.5% and at year-end was 6.4%.

Aggregate domestic commercial paper had a weighted-average interest rate during Fiscal 1999 of 5.3% and at year-end of 4.9%. In Fiscal 1998, the weighted-average interest rate and the rate at year-end was 5.6%. Based upon the amount of commercial paper outstanding at April 28, 1999, a variance of ⅛% in the related interest rate would cause annual interest expense to change by approximately $1.8 million. On July 15, 1998, the company, under its current shelf registration statement, issued $250 million of 6.375% debentures due July 2028. The proceeds were used to repay domestic commercial paper. (See Note 6 to the Consolidated Financial Statements.)

The company's $2.30 billion credit agreement, which expires in September 2001, supports its domestic commercial paper program. As of April 28, 1999, $1.41 billion of domestic commercial paper is classified as long-term debt due to the long-term nature of the supporting credit agreement. At April 29, 1998, $1.34 billion of domestic commercial paper was outstanding and classified as long-term debt.

On September 8, 1998, the company's Board of Directors raised the quarterly dividend on the company's common stock to $0.34¼ per share from $0.31½ per share, for an indicated annual rate of $1.37 per share. The company paid $484.8 million in dividends to both common and preferred shareholders, an increase of $32.2 million, or 7.1%, over Fiscal 1998. The dividend rate in effect at the

end of each year resulted in a payout ratio of 106.2% in Fiscal 1999, 58.6% in Fiscal 1998 and 143.2% in Fiscal 1997. Excluding the impact of the restructuring related items in all years, the payout ratio was 57.1%, 58.6% and 65.9% in Fiscal 1999, Fiscal 1998 and Fiscal 1997, respectively.

In Fiscal 1999, the company repurchased 7.5 million shares of common stock, or 2.1% of the amount outstanding at the beginning of Fiscal 1999, at a cost of $410.1 million. As of April 28, 1999, the company had repurchased 9.3 million shares as part of the 10.0 million share repurchase program, which was authorized by the Board of Directors on September 10, 1997. This plan was completed on June 1, 1999. On June 9, 1999, the Board of Directors authorized the repurchase of up to 20.0 million shares. During Fiscal 1998, 13.6 million shares were repurchased at a cost of $677.2 million. The company may reissue repurchased shares upon the exercise of stock options, conversions of preferred stock and for general corporate purposes.

In Fiscal 1999, the cash requirements for Phase I of Operation Excel were $75.6 million, consisting of spending for severance and exit costs ($16.6 million), capital expenditures ($5.8 million) and implementation costs ($53.2 million). The Fiscal 1999 cash requirements for Project Millennia were $117.4 million, consisting of spending for severance and exit costs ($48.6 million), capital expenditures ($46.5 million) and implementation costs ($22.3 million). In Fiscal 2000, the company expects the cash requirements related to Phase I of Operation Excel to be approximately $340 million, consisting of spending for severance and exit costs ($110 million of the $127.6 million accrued at April 28, 1999), capital expenditures ($100 million) and implementation costs ($130 million). Project Millennia is expected to require cash of approximately $20 million in Fiscal 2000, consisting of spending for severance and exit costs ($15 million of the $20.1 million accrued at April 28, 1999) and capital expenditures ($5 million). Future phases of Operation Excel are expected to require approximately $400 million for severance, exit and implementation costs over the next four years. The company is financing the cash requirements of these programs through operations, proceeds from the sale of non-strategic assets and with short- and long-term borrowings. The cash requirements of Operation Excel and Project Millennia will not have a significant impact on the company's liquidity or financial position.

During 1995, the company participated in the formation of a business (the "entity") which purchases a portion of the trade receivables generated by the company. The company sells receivables to Jameson, Inc., a wholly owned subsidiary, which then sells undivided interests in the receivables to the entity. Outside investors contributed $95.4 million in capital to the entity. The company consolidates the entity, and the capital contributed by outside investors is classified as minority interest ("other long-term liabilities") on the Consolidated Balance Sheets.

In June 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments. The statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FAS Statement 133," which postponed the adoption date of SFAS No. 133. As such, the company is not required to adopt the statement until Fiscal 2002. The company is currently evaluating the effect that implementation of the new standard will have on its results of operations and financial position.

In April 1998, the American Institute of CPAs issued a Statement of Position ("SOP") entitled "Reporting on the Costs of Start-up Activities." This SOP requires that costs incurred to open a new facility, introduce a new product, commence a new operation or other similar activities be expensed as incurred. The company will adopt this SOP in Fiscal 2000. The company does not believe this SOP will have a material impact on its financial statements.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect Fiscal 2000 results.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

MARKET RISK FACTORS

The following discussion about the company's risk-management activities includes "forward-looking" statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The company is exposed to market risks from adverse changes in foreign exchange rates, interest rates and commodity prices. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

Foreign Exchange Rate Sensitivity: The company's cash flow and earnings are subject to fluctuations due to exchange rate variation. Foreign currency risk exists by nature of the company's global operations. The company manufactures and sells its products in a number of locations around the world, and hence foreign currency risk is well diversified.

When appropriate, the company may attempt to limit its exposure to changing foreign exchange rates through both operational and financial market actions. These actions may include entering into forward, option and swap contracts to hedge existing exposures, firm commitments and, potentially, anticipated transactions. The instruments are used to reduce risk by essentially creating offsetting currency exposures. As of April 28, 1999, the company held contracts for the purpose of hedging certain intercompany cash flows with an aggregate notional amount of approximately $680 million. In addition, the company held separate contracts in order to hedge purchases of certain raw materials and finished goods and for payments arising from certain foreign currency denominated obligations totaling approximately $190 million. The company also held contracts to hedge sales denominated in foreign currencies of $140 million. The company's contracts mature within two years of the fiscal year-end. The contracts that effectively meet the risk reduction and correlation criteria, as measured on a currency-by-currency basis are accounted for as hedges. Accordingly, gains and losses are deferred in the cost basis of the underlying transaction. In those circumstances when it is not appropriate to account for the contracts as hedges, any gains and losses from mark-to-market and settlement are recorded in miscellaneous income and expense. At April 28, 1999, unrealized gains and losses on outstanding foreign currency contracts are not material. As of April 28, 1999, the potential gain or loss in the fair value of the company's outstanding foreign currency contracts, assuming a hypothetical 10% fluctuation in the currencies of such contracts, would be approximately $30 million. However, it should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. In addition, this hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Substantially all of the company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material. (See Note 12 to the Consolidated Financial Statements.)

Interest Rate Sensitivity: The company is exposed to changes in interest rates primarily as a result of its borrowing and investing activities used to maintain liquidity and fund business operations. The company continues to utilize commercial paper to fund working capital requirements in the U.S. and Canada. The company also borrows in different currencies from other sources to meet the borrowing needs of its foreign affiliates. The nature and amount of the company's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. There are no interest rate swap agreements outstanding at April 28, 1999.

The following table summarizes the company's debt obligations at April 28, 1999. The interest rates represent weighted-average rates, with the period end rate used for the variable rate debt obligations. The fair value of the debt obligations approximated the recorded value as of April 28, 1999. (See Notes 6 and 12 to the Consolidated Financial Statements.)

	EXPECTED FISCAL YEAR OF MATURITY						
(DOLLARS IN THOUSANDS)	2000	2001	2002	2003	2004	THEREAFTER	TOTAL
Fixed rate	$613,366	$19,330	$ 11,434	$453,201	$2,540	$568,864	$1,668,735
Average interest rate	6.83%	6.85%	8.35%	6.25%	6.40%	6.31%	
Variable rate	$290,841	$ –	$1,409,437	$ –	$ –	$ 7,400	$1,707,678
Average interest rate	5.32%	–	4.89%	–	–	3.72%	

Commodity Price Sensitivity: The company is the purchaser of certain commodities such as corn, wheat and soybean meal and oil. The company generally purchases these commodities based upon market prices that are established with the vendor as part of the purchase process. In general, the company does not use significant levels of commodity financial instruments to hedge commodity prices due to a high correlation between the commodity cost and the ultimate selling price of the product. On occasion, the company may enter into commodity future or option contracts, as deemed appropriate, to reduce the effect of price fluctuations on some future manufacturing requirements. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year. As of April 28, 1999, unrealized gains and losses related to commodity contracts held by the company were not material nor would they be given a hypothetical 10% fluctuation in market prices. It should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. (See Note 12 to the Consolidated Financial Statements.)

YEAR 2000 ISSUE

The Year 2000 issue arises because many computer hardware and software systems use only two digits rather than four digits to refer to a year. Therefore, computers or other equipment with date sensitive programming may not properly recognize a year that begins with "20." If not corrected, this could cause system failures or miscalculations that could significantly disrupt the company's business.

Beginning in 1996, the company initiated a worldwide plan to address the Year 2000 issues that could affect its operations. The company's Chief Information Officer is in charge of the Year 2000 project. Each of the company's business units and corporate headquarters have established Year 2000 teams. The project is called "Operation Ready," a name that helps focus the organization on the overall challenge of being operationally ready to address the expected consequences of the Year 2000 issue, including compliance by third parties who have material relationships with the company, such as vendors, customers and suppliers, and the development of contingency plans. The company's progress is monitored by senior management and periodically reported to the Audit Committee and Board of Directors.

The first phase of Operation Ready was to conduct a worldwide review to identify and evaluate areas impacted by the Year 2000 issue. The review and evaluation focused on both traditional computer information technology systems ("IT systems") and non-information systems such as manufacturing, process and logistical systems which rely on embedded chips or similar devices ("non-IT systems"). The assessment of the company's internal IT systems has been completed, and the assessment of its non-IT systems is substantially complete.

The second phase of the company's Year 2000 readiness plan is remediation which involves replacement, upgrading, modification and testing of affected hardware, software and process systems. As of April 28, 1999, management estimates that approximately 65% of its core worldwide IT systems are Year 2000 ready. Several of the company's major affiliates such as Heinz U.S.A., Heinz Italy and Heinz Australia are virtually 100% operationally ready with respect to their IT systems. It is expected that the remaining IT systems will be operationally ready by the end of September 1999. Time machine testing of key IT applications has been completed successfully for the company's major North American affiliates and the testing of other remediated systems is progressing on schedule. The remediation of non-IT systems is progressing on schedule, and it is estimated that these efforts also will be substantially complete by the end of September 1999.

The company's corporate audit department has dedicated efforts to evaluating the company's Year 2000 preparedness. The corporate audit department, with the assistance of outside consultants, completed on-site preparedness reviews at the company's major affiliate locations and its corporate headquarters. These reviews addressed IT system remediation efforts as well as contingency planning and non-IT issues. The corporate audit department continues monitoring progress with respect to earlier reviews.

It is currently estimated that the cost to make the company's IT systems and non-IT systems Year 2000 operationally ready will be approximately $75 million, of which over 80% has been incurred to date. All of the costs are being funded through operating cash flow. These estimated costs have not had nor are expected to have a material adverse effect on the company's consolidated financial position, results of operations or liquidity. The above amount includes costs for implementation of the company's contingency plans described below.

A critical part of Operation Ready involves the investigation and assessment of the Year 2000 preparedness of important suppliers, vendors, customers, utilities and other third parties. The company's initial round of assessments has been completed. Generally, these third parties have indicated that they are progressing on schedule with their Year 2000 issues. The company is continuing on-site interviews and face-to-face visits with the critical suppliers, vendors and customers. These efforts will continue throughout the year in order to minimize the risk that any significant adverse consequences will result due to the failure of these third parties to be Year 2000 ready.

While the company has no reason to believe that its exposure to the risks of the failure of it or third parties to be Year 2000 ready is any greater than the exposure to such risks that affect its competitors generally, there can be no assurance that the consequences of such failures would not have a material adverse impact on the company's operations. Although the company does not anticipate any major noncompliance issues, the company believes the most likely worst case scenario would be the temporary disruption of its business in certain locations in the event of noncompliance by the company or such third parties, which could include temporary plant closings, delays in the delivery and receipt of products and supplies, invoice and collection errors and inventory obsolescence. The company believes that its Operation Ready contingency planning should significantly reduce the adverse effect any such disruptions may have.

The company's headquarters and affiliate Year 2000 readiness teams are working to allow the company to continue critical operations in the event either the company or major key suppliers or customers fail to resolve their respective Year 2000 issues in a timely manner. In addition, each major function involving the company (purchasing, manufacturing, sales, etc.) has a contingency planning team working on Year 2000 issues specific to that function. The plans developed by the functional teams have been shared with the affiliate teams, so that Year 2000 issues will be addressed from two separate perspectives. Contingency plans include stockpiling raw and packaging materials, increasing finished goods inventory levels, developing emergency backup and recovery procedures, securing alternate suppliers, replacing electronic applications with manual processes or other appropriate measures.

The company has implemented an internal web site to disseminate Year 2000 related information, including policies, guidelines, tools, teams, plans and progress reporting to affiliate Operation Ready

teams throughout the world. Standardized progress reporting has been implemented for all affiliates to report their contingency planning and remediation status to the corporate headquarters. Year 2000 status and issues have been key topics at global management conferences. The company's Year 2000 readiness plan, including the further development and refinement of contingency plans, is an ongoing process and will continue to evolve and change as new information becomes available.

EURO CONVERSION

A single currency, the Euro, was introduced in Europe on January 1, 1999. Of the fifteen member countries of the European Union, eleven adopted the Euro as their legal currency on that date. Fixed conversion rates between the national currencies of these eleven countries and the Euro were established on that date. The national currencies are scheduled to remain legal tender as denominations of the Euro during the transition period ending December 31, 2001. During this transition period, parties may settle transactions using either the Euro or a participating country's national currency. At the current time, the company does not believe that the conversion to the Euro will have a material impact on its business or its financial condition.

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 30, 1999 approximated 61,306. The closing price of the common stock on the New York Stock Exchange composite listing on April 28, 1999 was $48 7/16.

Stock price information for common stock by quarter follows:

	STOCK PRICE RANGE	
	HIGH	LOW
1999		
First	$58 1/2	$51 5/8
Second	61 1/8	48 1/2
Third	61 3/4	51 3/16
Fourth	58 13/16	44 9/16
1998		
First	$47 1/2	$41 1/4
Second	49 7/16	41 1/8
Third	56 11/16	45 1/2
Fourth	59 15/16	51 7/16

CONSOLIDATED STATEMENTS OF INCOME

H.J. Heinz Company and Subsidiaries

FISCAL YEAR ENDED (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	APRIL 28, 1999 (52 WEEKS)	APRIL 29, 1998 (52 WEEKS)	APRIL 30, 1997 (52 WEEKS)
Sales	$9,299,610	$9,209,284	$9,357,007
Cost of products sold	5,944,867	5,711,213	6,385,091
Gross profit	3,354,743	3,498,071	2,971,916
Selling, general and administrative expenses	2,245,431	1,977,741	2,215,645
Operating income	1,109,312	1,520,330	756,271
Interest income	25,082	32,655	39,359
Interest expense	258,813	258,616	274,746
Other expense, net	40,450	39,388	41,820
Income before income taxes	835,131	1,254,981	479,064
Provision for income taxes	360,790	453,415	177,193
Net income	$ 474,341	$ 801,566	$ 301,871
PER COMMON SHARE AMOUNTS:			
Net income – diluted	$ 1.29	$ 2.15	$ 0.81
Net income – basic	$ 1.31	$ 2.19	$ 0.82
Cash dividends	$ 1.34¼	$ 1.23½	$ 1.13½
Average common shares outstanding – diluted	367,830,419	372,952,851	374,043,705
Average common shares outstanding – basic	361,203,539	365,982,290	367,470,850

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

H.J. Heinz Company and Subsidiaries

ASSETS (DOLLARS IN THOUSANDS)	APRIL 28, 1999	APRIL 29, 1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 115,982	$ 96,300
Short-term investments, at cost which approximates market	7,139	3,098
Receivables (net of allowances: 1999 – $21,633 and 1998 – $17,627)	1,163,915	1,071,837
Inventories:		
Finished goods and work-in-process	1,064,015	988,322
Packaging material and ingredients	345,636	340,521
	1,409,651	1,328,843
Prepaid expenses	154,619	167,431
Other current assets	35,472	19,010
Total current assets	2,886,778	2,686,519
PROPERTY, PLANT AND EQUIPMENT:		
Land	48,649	51,129
Buildings and leasehold improvements	798,307	806,299
Equipment, furniture and other	3,227,019	3,210,695
	4,073,975	4,068,123
Less accumulated depreciation	1,902,951	1,673,461
Total property, plant and equipment, net	2,171,024	2,394,662
OTHER NON-CURRENT ASSETS:		
Goodwill (net of amortization: 1999 – $352,209 and 1998 – $297,868)	1,781,466	1,764,574
Trademarks (net of amortization: 1999 – $84,672 and 1998 – $67,791)	511,608	416,918
Other intangibles (net of amortization: 1999 – $117,038 and 1998 – $112,768)	177,290	194,560
Other non-current assets	525,468	566,188
Total other non-current assets	2,995,832	2,942,240
Total assets	$8,053,634	$8,023,421

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY (DOLLARS IN THOUSANDS)	APRIL 28, 1999	APRIL 29, 1998
CURRENT LIABILITIES:		
Short-term debt	$ 290,841	$ 301,028
Portion of long-term debt due within one year	613,366	38,598
Accounts payable	945,488	978,365
Salaries and wages	74,098	66,473
Accrued marketing	182,024	163,405
Accrued restructuring costs	147,786	94,400
Other accrued liabilities	372,623	360,608
Income taxes	160,096	161,396
Total current liabilities	2,786,322	2,164,273
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	2,472,206	2,768,277
Deferred income taxes	310,799	291,161
Non-pension postretirement benefits	208,102	209,642
Other	473,201	373,552
Total long-term debt and other liabilities	3,464,308	3,642,632
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	173	199
Common stock, 431,096,485 shares issued, $.25 par value	107,774	107,774
	107,947	107,973
Additional capital	277,652	252,773
Retained earnings	4,379,742	4,390,248
	4,765,341	4,750,994
Less:		
Treasury shares, at cost (71,968,652 shares at April 28, 1999 and 67,678,632 shares at April 29, 1998)	2,435,012	2,103,979
Unearned compensation relating to the ESOP	11,728	14,822
Accumulated other comprehensive loss	515,597	415,677
Total shareholders' equity	1,803,004	2,216,516
Total liabilities and shareholders' equity	$8,053,634	$8,023,421

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

H.J. Heinz Company and Subsidiaries

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	COMPREHENSIVE INCOME	PREFERRED STOCK SHARES	PREFERRED STOCK DOLLARS	COMMON STOCK SHARES	COMMON STOCK DOLLARS
Balance at May 1, 1996		27	$271	431,096	$107,774
Comprehensive income – 1997:					
Net income – 1997	$ 301,871				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $3,282 tax expense	5,588				
Unrealized translation adjustments	(41,353)				
Realized translation reclassification adjustment	(13,758)				
Comprehensive income	$ 252,348				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.13½ per share					
Shares reacquired					
Conversion of preferred into common stock		(3)	(30)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net					
Balance at April 30, 1997		24	241	431,096	107,774
Comprehensive income – 1998:					
Net income – 1998	$ 801,566				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $1,428 tax expense	2,433				
Unrealized translation adjustments	(180,284)				
Comprehensive income	$ 623,715				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.23½ per share					
Shares reacquired					
Conversion of preferred into common stock		(4)	(42)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net					
Balance at April 29, 1998		20	199	431,096	107,774
Comprehensive income – 1999:					
Net income – 1999	$ 474,341				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $6,975 tax benefit	(11,880)				
Unrealized translation adjustments	(88,040)				
Comprehensive income	$ 374,421				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.34¼ per share					
Shares reacquired					
Conversion of preferred into common stock		(3)	(26)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net					
Balance at April 28, 1999		17	$173	431,096	$107,774
Authorized Shares – April 28, 1999		17		600,000	

See Notes to Consolidated Financial Statements.

ADDITIONAL CAPITAL	RETAINED EARNINGS	TREASURY STOCK SHARES	TREASURY STOCK DOLLARS	UNEARNED COMPENSATION RELATING TO THE ESOP	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
$154,602	$4,156,380	(62,498)	$(1,500,866)	$(23,101)	$(188,303)	$2,706,757
	301,871					301,871
					(49,523)	(49,523)
	(43)					(43)
	(416,923)					(416,923)
		(7,939)	(277,046)			(277,046)
(932)		41	963			1
21,946*		6,466	147,071			169,017
				5,738		5,738
195		18	377			572
175,811	4,041,285	(63,912)	(1,629,501)	(17,363)	(237,826)	2,440,421
	801,566					801,566
					(177,851)	(177,851)
	(37)					(37)
	(452,566)					(452,566)
		(13,559)	(677,193)			(677,193)
(1,322)		56	1,364			–
77,830*		9,717	200,860			278,690
				2,541		2,541
454		19	491			945
252,773	4,390,248	(67,679)	(2,103,979)	(14,822)	(415,677)	2,216,516
	474,341					474,341
					(99,920)	(99,920)
	(30)					(30)
	(484,817)					(484,817)
		(7,464)	(410,103)			(410,103)
(846)		34	872			–
25,658*		3,138	78,150			103,808
				3,094		3,094
67		2	48			115
$277,652	$4,379,742	(71,969)	$(2,435,012)	$(11,728)	$(515,597)†	$1,803,004

** Includes income tax benefit resulting from exercised stock options.*

† Comprised of unrealized translation adjustment of $(479,188) and minimum pension liability of $(36,409).

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.J. Heinz Company and Subsidiaries

FISCAL YEAR ENDED (DOLLARS IN THOUSANDS)	APRIL 28, 1999 (52 WEEKS)	APRIL 29, 1998 (52 WEEKS)	APRIL 30, 1997 (52 WEEKS)
OPERATING ACTIVITIES:			
Net income	$ 474,341	$ 801,566	$ 301,871
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	207,852	222,492	244,388
Amortization	94,360	91,130	96,102
Deferred tax provision (benefit)	23,564	120,875	(33,450)
Gain on sale of bakery products unit	(5,717)	–	–
Gain on sale of Ore-Ida frozen foodservice business	–	(96,563)	–
Gain on sale of New Zealand ice cream business and U.K. real estate	–	–	(85,282)
Provision for restructuring	527,107	–	647,200
Other items, net	(43,147)	(126,805)	(42,527)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	(88,742)	(7,155)	74,445
Inventories	(115,743)	47,917	(5,329)
Prepaid expenses and other current assets	2,604	4,874	5,094
Accounts payable	3,410	54,345	18,003
Accrued liabilities	(150,533)	(131,400)	(182,555)
Income taxes	(19,220)	84,468	(162,962)
Cash provided by operating activities	910,136	1,065,744	874,998
INVESTING ACTIVITIES:			
Capital expenditures	(316,723)	(373,754)	(377,457)
Acquisitions, net of cash acquired	(268,951)	(142,112)	(208,383)
Proceeds from divestitures	180,400	494,739	165,555
Purchases of short-term investments	(915,596)	(1,179,024)	(1,223,884)
Sales and maturities of short-term investments	883,945	1,216,573	1,233,919
Other items, net	46,396	10,740	23,937
Cash (used for) provided by investing activities	(390,529)	27,162	(386,313)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	259,593	555,017	47,483
Payments on long-term debt	(65,744)	(572,905)	(99,176)
Proceeds from (payments on) commercial paper and short-term borrowings, net	74,464	(288,346)	133,732
Dividends	(484,847)	(452,603)	(416,966)
Purchase of treasury stock	(410,103)	(677,193)	(277,046)
Exercise of stock options	77,158	200,972	135,082
Other items, net	33,989	88,457	47,131
Cash (used for) financing activities	(515,490)	(1,146,601)	(429,760)
Effect of exchange rate changes on cash and cash equivalents	15,565	(6,991)	7,997
Net increase (decrease) in cash and cash equivalents	19,682	(60,686)	66,922
Cash and cash equivalents at beginning of year	96,300	156,986	90,064
Cash and cash equivalents at end of year	$ 115,982	$ 96,300	$ 156,986

See Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: H.J. Heinz Company (the "company") operates on a 52- or 53-week fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 28, 1999, April 29, 1998 and April 30, 1997.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Certain prior-year amounts have been reclassified in order to conform with the 1999 presentation.

Use of Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Intangibles: Goodwill, trademarks and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods ranging from three to 40 years. The company regularly reviews the individual components of the balances by evaluating the future cash flows of the businesses to determine the recoverability of the assets and recognizes, on a current basis, any diminution in value.

Revenue Recognition: The company generally recognizes revenue upon shipment of goods to customers or upon performance of services. However, in certain overseas countries, revenue is recognized upon receipt of the product by the customer.

Advertising Expenses: Advertising costs are generally expensed in the year in which the advertising first takes place.

Income Taxes: Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Stock-Based Employee Compensation Plans: Stock-based compensation is accounted for by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Financial Instruments: The company uses derivative financial instruments for the purpose of hedging currency, price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

□ *Interest Rate Swap Agreements:* The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. Amounts paid or received on interest rate swap agreements are deferred and recognized as adjustments to interest expense. Gains and losses realized upon the settlement of such contracts are deferred and amortized to interest expense over the remaining term of the debt instrument or are recognized immediately if the underlying instrument is settled.

□ *Foreign Currency Contracts:* The company enters into forward, purchased option and swap contracts to hedge transactions denominated in foreign currencies in order to reduce the currency risk associated with fluctuating exchange rates. Such contracts are used primarily to hedge certain intercompany cash flows, purchases and sales of certain raw materials and finished goods and for payments arising from certain foreign currency denominated obligations. Realized and unrealized gains and losses from instruments qualifying as hedges are deferred as part of the cost basis of the underlying transaction. Realized and unrealized gains and losses from foreign currency contracts used as economic hedges but not qualifying for hedge accounting are recognized currently in miscellaneous income and expense.

□ *Commodity Contracts:* In connection with purchasing certain commodities for future manufacturing requirements, the company enters into commodities futures and option contracts, as deemed appropriate, to reduce the effect of price fluctuations. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year.

The cash flows related to the above financial instruments are classified in the Statements of Cash Flows in a manner consistent with those of the transactions being hedged.

Earnings Per Share: In the third quarter of Fiscal 1998, the company adopted SFAS No. 128, "Earnings Per Share," which requires the disclosure of both diluted and basic earnings per share. Previously reported earnings per share amounts have been restated, as necessary, to conform to SFAS No. 128 requirements. All earnings per share amounts are presented on an after-tax diluted basis unless otherwise noted.

Comprehensive Income: The company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting comprehensive income in financial statements. Comprehensive income includes all changes in equity during a period except those resulting from investments by or distributions to shareholders. For the company, comprehensive income for all periods presented consisted of net income, foreign currency translation adjustments and the adjustment to the minimum pension liability. Amounts in prior year financial statements have been reclassified to conform to SFAS No. 130 requirements.

Business Segment Information: The company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes new standards for reporting and disclosure relating to segments and geographic areas. Previously reported segment and geographic information has been restated to conform to SFAS No. 131 requirements.

Postretirement Benefits: The company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises employers' disclosures about pension and other postretirement benefit plans. Amounts in prior year financial statements have been reclassified to conform to SFAS No. 132 requirements.

Recently Issued Accounting Standards: In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments. The statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FAS Statement 133," which postponed the adoption date of SFAS No. 133. As such, the company is not required to adopt the statement until Fiscal 2002. The company is currently evaluating the effect that implementation of the new standard will have on its results of operations and financial position.

In April 1998, the American Institute of CPAs issued a Statement of Position ("SOP") entitled "Reporting on the Costs of Start-up Activities." This SOP requires that costs incurred to open a new facility, introduce a new product, commence a new operation or other similar activities be expensed as incurred. The company will adopt this SOP in Fiscal 2000. The company does not believe this SOP will have a material impact on its financial statements.

2. ACQUISITIONS

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward. Pro forma results of the company, assuming all of the following acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 1999: The company acquired businesses for a total of $317.3 million, including obligations to sellers of $48.4 million. The preliminary allocations of the purchase price resulted in goodwill of $179.4 million and trademarks and other intangible assets of $128.0 million, which are being amortized on a straight-line basis over periods not exceeding 40 years. Final allocation of the purchase price is not expected to differ significantly from the preliminary allocations and is expected to be completed in the first quarter of Fiscal 2000.

Acquisitions made during Fiscal 1999 include: the College Inn brand of canned broths and a joint venture with ABC Indonesia, a leading provider of ketchup, sauces and condiments. The company also made other smaller acquisitions during the year.

Fiscal 1998: The company acquired businesses for a total of $142.1 million. The allocations of the purchase price resulted in goodwill of $65.1 million and trademarks and other intangible assets of $27.2 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On June 30, 1997, the company acquired John West Foods Limited, the leading brand of canned tuna and fish in the United Kingdom. Based in Liverpool, John West Foods Limited sells its canned fish products throughout Continental Europe and in a number of other international markets. (John West operations in Australia, New Zealand and South Africa were not included in the transaction.) During Fiscal 1998, the company also made other acquisitions, primarily in the Asia/Pacific region, Europe and South Africa.

Fiscal 1997: The company acquired businesses for a total of $222.6 million, including notes to sellers of $14.2 million. The allocations of purchase price resulted in goodwill of $144.9 million and trademarks and other intangible assets of $26.9 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On November 4, 1996, the company acquired the assets of the canned beans and pasta business of Nestlé Canada Inc., together with a two-year license to use the Libby's brand. Under the agreement, the company also acquired the trademarks Deep-Browned Beans, Alpha-Getti and Zoodles, among others.

On September 23, 1996, the company acquired substantially all of the pet food businesses of Martin Feed Mills Limited of Elmira, Ontario. Martin produces and markets cat and dog food throughout Canada and also exports to Japan and Europe. Martin sells pet food under the Techni-Cal brand and markets products under the Medi-Cal label through veterinary offices and clinics.

On July 10, 1996, the company acquired Southern Country Foods Limited in Australia, a producer of canned corned beef and meals. During Fiscal 1997, the company also made other smaller acquisitions.

3. DIVESTITURES

On October 2, 1998, the company completed the sale of its bakery products unit for $178.0 million. The transaction resulted in a pretax gain of $5.7 million, which was recorded in selling, general and administrative expenses ("SG&A"). The bakery products unit contributed approximately $200 million in sales for Fiscal 1998.

On June 30, 1997, the company completed the sale of its Ore-Ida frozen foodservice business. The transaction resulted in a pretax gain of approximately $96.6 million ($0.14 per share), and was recorded in SG&A. The transaction included the sale of the company's Ore-Ida appetizer, pasta and potato foodservice business and five of the Ore-Ida plants that manufacture the products. The Ore-Ida frozen foodservice business contributed approximately $525 million in net sales for Fiscal 1997.

In the fourth quarter of Fiscal 1997, the company sold its New Zealand ice cream business for approximately $150 million. The pretax gain on the divestiture totaled $72.1 million, or $0.12 per share.

Pro forma results of the company, assuming all of the above divestitures had been made at the beginning of each period presented, would not be materially different from the results reported.

4. RESTRUCTURING CHARGES

Operation Excel

During Fiscal 1999, Phase I of a multi-year restructuring program ("Operation Excel") was approved by the company's Board of Directors, and resulted in recognition of restructuring charges and implementation costs totaling $552.8 million pretax ($1.11 per share), of which $141.7 million was recognized in the third quarter of Fiscal 1999, and $411.1 million was recognized in the fourth quarter of Fiscal 1999. Pretax charges of $396.4 million are classified as cost of products sold and $156.4 million as SG&A.

The major components of Operation Excel include: creating manufacturing centers of excellence; focusing the product portfolio; realigning the company's management teams; and investing in growth initiatives.

Creating manufacturing centers of excellence is resulting in significant changes to the company's manufacturing footprint including the following Phase I initiatives: closing the Harlesden factory in London, England and focusing the Kitt Green factory in Wigan, England on canned beans, soups and pasta production and focusing the Elst factory in the Netherlands on tomato ketchup and sauces; downsizing the Puerto Rico tuna processing facility and focusing this facility on lower volume/higher margin products; focusing the Pittsburgh, Pennsylvania factory on soup and baby food production and shifting other production to existing facilities; closing the West Chester, Pennsylvania factory and shifting pasta production to the Bloomsburg, Pennsylvania factory; consolidating manufacturing capacity in the Asia/Pacific region; closing the Zabreh, Czech Republic factory and disposing of the dairy business and transferring the infant formula business to the Kendal, England factory; downsizing the Pocatello, Idaho factory by shifting Bagel Bites production to the Ft. Myers, Florida factory and shifting certain other Smart Ones entrée production to the Massillon, Ohio factory; and closing the Redditch, England factory and shifting production to the Telford, England factory and the Turnhout factory in Belgium.

As part of Operation Excel, the company is focusing the product portfolio on six core food categories. A consequence of this focus is the potential sale of the Weight Watchers classroom business. Additionally, seven other smaller businesses, which had combined annual revenues of approximately $80 million, will be disposed.

Phase I of Operation Excel will also result in creating a single U.S. frozen food headquarters, including the closure of the company's Ore-Ida head office in Boise, Idaho; and also includes consolidating many European administrative support functions.

Phase I initiatives will result in the closure or exit of 16 factories or businesses. Management estimates that these actions will impact 5,500 employees with a net reduction in the workforce of 4,000 after expansion of certain facilities. During Fiscal 1999, the company's workforce was reduced by approximately 200 employees principally through the closure of Ore-Ida's Boise head office and through the divestiture of the Clarksville, Arkansas sweet potato business.

The major components of the restructuring charges and implementation costs and the remaining accrual balance as of April 28, 1999 were as follows:

(DOLLARS IN MILLIONS)	NON-CASH ASSET WRITE-DOWNS	EMPLOYEE TERMINATION AND SEVERANCE COSTS	ACCRUED EXIT COSTS	IMPLEMENTATION COSTS	TOTAL
Initial charge – 1999	$ 294.9	$159.4	$45.3	$ 53.2	$ 552.8
Amounts utilized – 1999	(294.9)	(67.3)	(9.8)	(53.2)	(425.2)
Accrued restructuring costs – April 28, 1999	$ –	$ 92.1	$35.5	$ –	$ 127.6

Non-cash asset write-downs consisted primarily of long-term asset impairments that were recorded as a direct result of the company's decision to exit businesses or facilities ($260.5 million), including property, plant and equipment ($210.9 million) and goodwill and other intangibles ($49.6 million). The write-downs were based on third party appraisals, contracted sales prices or management's estimate of salvage value. The carrying value of these long-term assets is approximately $50 million and these assets will be sold or removed from service within 15 months. Once the assets are removed from service, the company will actively market these assets for sale. The results of operations, including the effect of reduced depreciation, related to these assets, were not material. Current assets ($34.5 million) affected by the restructuring program were also written-down to net realizable values. These write-downs included inventory and packaging material, prepaids, and other current assets and were determined based on management's estimate of net realizable value.

Severance charges are primarily related to involuntary terminations and represent cash termination payments to be paid to affected employees as a direct result of the restructuring program. Non-cash pension and postretirement benefit charges ($60.5 million) for curtailments and settlements related to the approved projects are also included as a component of total severance cost. Employee termination

and severance costs do not represent all of the amounts to be recorded in connection with the separation of the affected employees, as additional costs will be recognized over the next year as eligibility requirements are met.

Accrued exit costs ($45.3 million) are primarily related to contract and lease termination costs ($35.0 million).

Implementation costs were recognized as incurred in Fiscal 1999 ($53.2 million) and consist primarily of consulting fees and employee relocation expenses.

Project Millennia

During the fourth quarter of Fiscal 1997, the company announced a reorganization and restructuring program named "Project Millennia." The reorganization plan was designed to strengthen the company's core businesses and improve profitability and global growth. Key initiatives were focused on process changes and product line rationalizations.

Significant process change initiatives were: changing our go-to-market strategies, including the elimination of inefficient end-of-quarter trade promotion practices; outsourcing certain manufacturing operations and eliminating excess manufacturing capacity throughout the company; refocusing the company's U.S. Weight Watchers classroom business and introducing a new weight loss program (1·2·3 Success™) in the U.S.; and developing a Pan-European category-based strategy in Europe. Product line rationalization initiatives included: divestiture of four businesses (the Ore-Ida frozen foodservice business, the New Zealand ice cream business, the Weight Watchers dry and refrigerated businesses and the U.S. frozen pizza and pizza topping business); exiting the Weight Watchers Personal Cuisine business; exiting the "dinner" product line from The Budget Gourmet business; and converting all Weight Watchers entrées to the Smart Ones brand and reformulating the product and changing the packaging.

Total restructuring charges and implementation costs recognized in Fiscal 1997 were $647.2 million, of which $477.8 million were classified as cost of products sold and $169.4 million were classified as selling, general and administrative expenses. Components of the restructuring program included an estimated net reduction of the global workforce of approximately 2,500 employees and the closure or sale of 25 plants throughout the world. Plant closures or sales include: five Ore-Ida factories, three New Zealand ice cream factories, four North American bakery factories, three U.S. frozen pizza and pizza topping facilities, two New Zealand food processing factories, the Tracy, California tomato processing factory, the Kankakee, Illinois pet food factory and six smaller factories.

The major components of the restructuring charges and implementation costs and the accrual balances as of April 28, 1999, April 29, 1998 and April 30, 1997 were as follows:

(DOLLARS IN MILLIONS)	NON-CASH ASSET WRITE-DOWNS	EMPLOYEE TERMINATION AND SEVERANCE COSTS	EXIT COSTS: ACCRUED EXIT COSTS	EXIT COSTS: IMPLEMENTATION COSTS	TOTAL
Initial charge – 1997	$ 324.3	$164.5	$ 94.3	$ 64.1	$ 647.2
Amounts utilized – 1997	(324.3)	(32.1)*	(15.9)	(64.1)	(436.4)
Accrued restructuring costs – April 30, 1997	–	132.4	78.4	–	210.8
Implementation costs – 1998	–	–	–	84.1	84.1
Amounts utilized – 1998	–	(91.9)	(24.5)	(84.1)	(200.5)
Accrued restructuring costs – April 29, 1998	–	40.5	53.9	–	94.4
Implementation costs – 1999	–	–	–	22.3	22.3
Amounts utilized – 1999	–	(28.7)	(19.9)	(22.3)	(70.9)
Accrual reversal – 1999	–	(9.1)	(16.6)	–	(25.7)
Accrued restructuring costs – April 28, 1999	$ –	$ 2.7	$ 17.4	$ –	$ 20.1

** Includes $18.9 million in non-cash charges resulting from termination benefit programs.*

Non-cash asset write-downs consisted primarily of long-term asset impairments that were recorded as a direct result of the company's decision to exit businesses or facilities ($206.8 million), including property, plant and equipment ($193.9 million) and goodwill and other intangibles ($12.9 million). The write-downs were based on third party appraisals, contracted sales price or management's estimate of salvage value. After the write-down, the carrying value of these assets was $36.5 million and the results of operations, including the effect of suspending depreciation, related to assets to be disposed of were not material. Write-downs were also recognized for current assets that were written-down to net realizable values as a result of the process changes and product line rationalizations described above ($117.5 million). These write-downs included inventory and packaging material, prepaids, spare-parts and supplies, and cylinders and dies.

Severance costs include charges related to both voluntary terminations and involuntary terminations. As part of the voluntary termination agreements, enhanced retirement benefits were offered to the affected employees. These amounts were included in the severance cost component of the restructuring charge.

Exit costs included $64.1 million of implementation costs for the project, which were recognized as incurred in Fiscal 1997, and accrued costs comprised of contract and lease termination costs of $55.9 million, product return costs of $20.7 million and other costs of $17.7 million.

Project Millennia Status Update

During Fiscal 1998, the company utilized $116.4 million of severance and exit accruals to facilitate the process change and product line rationalization initiatives, described above. The company spent an additional $84.1 million for implementation costs, consisting primarily of relocation, consulting, training and start-up costs, which were expensed as incurred. There were 17 factories sold or closed during the year and the net workforce was reduced by 1,800 employees.

During Fiscal 1999, the company utilized $48.6 million of severance and exit accruals, principally on the realignment of the pet food manufacturing and distribution operations, streamlining of European operations, consolidation of the Heinz-Wattie businesses in Australia and New Zealand, contractual lease commitments associated with the restructuring of the U.S. Weight Watchers meeting system, and costs related to the exit of certain of the company's frozen entrée brands. The company also incurred $22.3 million of additional costs related to the continued implementation of Project Millennia. These costs consisted principally of start-up, consulting and training costs.

In the second quarter of Fiscal 1999, the company reversed $25.7 million of unutilized Project Millennia accruals for severance and exit costs. In Europe, severance accruals were reduced $9.1 million, principally as a result of lower severance payments in Italy versus the original estimates and fewer selling, general and administrative terminations in the U.K. In the U.S., $16.6 million of the accrual for exit costs was reversed principally as a result of avoided contractual liabilities related to product returns due to the sale of the Weight Watchers dry and refrigerated business. The Weight Watchers frozen entrée business also experienced lower costs in exiting certain of the company's frozen entrée product offerings.

As of April 28, 1999, the company has closed or divested 23 of the 25 plants (five in Fiscal 1997, 17 in Fiscal 1998 and one in Fiscal 1999) that were scheduled for closure or divestiture. The remaining two facilities (one tuna processing facility in Australia and one tomato processing facility in Spain) have been publicly announced and will be closed by the end of October 1999.

As of April 28, 1999, Project Millennia has resulted in a net workforce reduction of 2,100 employees. The two remaining plant closures described above will result in an additional workforce reduction of 150 employees. The total workforce reduction is now estimated to be 2,250 compared to the 2,500 originally estimated. The lower net headcount reductions as well as the lower actual severance payments compared to the original estimates have resulted in the reversal of original severance accruals of $9.1 million as described above.

As of April 28, 1999, there are $20.1 million of remaining Project Millennia accruals. These accruals relate to the finalization of plant closures, remaining costs related to the exit of certain of the company's frozen entrée brands, and contractual lease commitments associated with the restructuring of the U.S. Weight Watchers meeting system. With the exception of the lease costs, all other spending will be completed by the end of the second quarter of Fiscal 2000.

5. INCOME TAXES

The following table summarizes the provision/(benefit) for U.S. federal and U.S. possessions, state and foreign taxes on income.

(DOLLARS IN THOUSANDS)	1999	1998	1997
Current:			
U.S. federal and U.S. possessions	$110,490	$214,866	$ 67,274
State	15,389	17,667	6,458
Foreign	211,347	100,007	136,911
	337,226	332,540	210,643
Deferred:			
U.S. federal and U.S. possessions	66,944	103,630	(38,988)
State	2,441	1,536	(10,763)
Foreign	(45,821)	15,709	16,301
	23,564	120,875	(33,450)
Total tax provision	$360,790	$453,415	$177,193

The Fiscal 1999 effective tax rate was unfavorably impacted by restructuring and related costs expected to be realized in lower tax rate jurisdictions and by non-deductible expenses related to the restructuring. The tax benefit related to the $552.8 million of restructuring and related costs for Phase I of Operation Excel was $143.1 million. In 1998, reduced tax rates enacted in the United Kingdom and Italy decreased the tax provision by $21.6 million, representing the impact of the reduced tax rates on net deferred taxes payable as of the dates of enactment. Tax expense resulting from allocating certain tax benefits directly to additional capital totaled $26.6 million in 1999, $77.7 million in 1998 and $33.8 million in 1997.

The components of income before income taxes consist of the following:

(DOLLARS IN THOUSANDS)	1999	1998	1997
Domestic	$427,089	$ 742,665	$ (47,219)
Foreign	408,042	512,316	526,283
	$835,131	$1,254,981	$479,064

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	1999	1998	1997
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Tax on income of foreign subsidiaries	1.5	(0.7)	5.6
State income taxes (net of federal benefit)	1.5	1.1	(0.2)
Tax credits	(0.3)	0.2	(2.1)
Earnings repatriation	(0.3)	(0.2)	5.5
Effect of foreign losses	3.8	–	(0.7)
Tax on income of U.S. possessions subsidiaries	0.6	(1.3)	(2.8)
Other	1.4	2.0	(3.3)
Effective tax rate	43.2%	36.1%	37.0%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheets as of April 28, 1999 and April 29, 1998 are as follows:

(DOLLARS IN THOUSANDS)	1999	1998
Depreciation/amortization	$ 429,101	$ 443,448
Benefit plans	70,006	71,508
Other	57,925	100,676
	557,032	615,632
Provision for estimated expenses	(148,519)	(106,325)
Operating loss carryforwards	(37,104)	(50,317)
Benefit plans	(106,015)	(111,039)
Promotions and advertising	(23,162)	(31,829)
Other	(102,077)	(119,771)
	(416,877)	(419,281)
Valuation allowance	40,811	20,992
Net deferred tax liabilities	$ 180,966	$ 217,343

At the end of 1999, net operating loss carryforwards totaled $89.0 million. Of that amount, $41.1 million expire through 2010; the other $47.9 million do not expire. Foreign tax credit carryforwards total $10.6 million and expire through 2004.

The company's consolidated U.S. income tax returns have been audited by the Internal Revenue Service for all years through 1994.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $1.92 billion at April 28, 1999.

The 1999 net change in the valuation allowance for deferred tax assets was an increase of $19.8 million, primarily due to write-offs and accruals related to Operation Excel.

6. DEBT

SHORT-TERM (DOLLARS IN THOUSANDS)	1999	1998
Commercial paper (foreign)	$ –	$ 79,841
Bank and other borrowings	290,841	221,187
	$290,841	$301,028

Total short-term debt had a weighted-average interest rate during 1999 of 6.3% and at year-end of 5.3%. The weighted-average interest rate on short-term debt during 1998 was 6.5% and at year-end was 6.4%.

The company maintains a $2.30 billion credit agreement that supports its domestic commercial paper program. The credit agreement expires in September 2001. In addition, the company had $916.5 million of foreign lines of credit available at year-end, principally for overdraft protection.

As of April 28, 1999 and April 29, 1998, the company had $1.41 billion and $1.34 billion, respectively, of domestic commercial paper outstanding. Due to the long-term nature of the amended credit agreement, all of the outstanding domestic commercial paper has been classified as long-term debt as of April 28, 1999 and April 29, 1998. Aggregate domestic commercial paper had a weighted-average interest rate during 1999 of 5.3% and at year-end of 4.9%. In 1998, the weighted-average rate and the rate at year-end was 5.6%.

LONG-TERM (DOLLARS IN THOUSANDS)	RANGE OF INTEREST	MATURITY (FISCAL YEAR)	1999	1998
United States Dollars:				
Commercial paper	Variable	2002	$1,406,131	$1,337,574
Senior unsecured notes	6.00–6.88%	2000–2029	1,040,013	797,791
Eurodollar bonds	5.75–7.50	2000–2003	499,089	498,944
Revenue bonds	3.40–7.70	2000–2027	15,092	18,342
Promissory notes	3.00–10.00	2000–2005	67,397	47,157
Other	6.35–15.00	2000–2006	5,860	6,337
			3,033,582	2,706,145
Foreign Currencies				
(U.S. Dollar Equivalents):				
Promissory notes:				
Pounds sterling	5.94–8.85%	2000–2006	10,230	27,272
Italian lire	3.50–8.83	2000–2008	7,377	23,751
Australian dollar	5.21	2000–2002	13,421	19,066
Other	5.75–24.00	2000–2022	20,962	30,641
			51,990	100,730
Total long-term debt			3,085,572	2,806,875
Less portion due within one year			613,366	38,598
			$2,472,206	$2,768,277

The amount of long-term debt that matures in each of the four years succeeding 2000 is: $19.3 million in 2001, $1,420.9 million in 2002, $453.2 million in 2003 and $2.5 million in 2004.

In February 1998, the company issued $250 million of 5.75% five-year notes in the Eurodollar capital markets. On March 16, 1998, the company filed a shelf registration statement with the Securities and Exchange Commission pursuant to which the company may from time to time issue debt securities of up to $750 million in the aggregate. The first transaction under the shelf registration statement was the issuance of $300 million of 6% ten-year notes in March 1998. The proceeds from both the five-year notes and the ten-year notes were used to repay domestic commercial paper.

On July 15, 1998, the company, under its current shelf registration statement, issued $250 million of 6.375% debentures due July 2028. The proceeds were used to repay domestic commercial paper.

7. SHAREHOLDERS' EQUITY

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 13.5 shares of common stock. The company can redeem the stock at $28.50 per share.

As of April 28, 1999, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan ("ESOP"): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year interest-bearing note, fixed at 5.6% for 1999, 1998 and 1997, and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 2,366,862 shares of treasury stock from the company at approximately $21.13 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1999, 1998 and 1997 was $0.6 million, $0.2 million and $3.0 million, respectively. Interest expense was $0.8 million, $0.9 million and $1.1 million for 1999, 1998 and 1997, respectively. The company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP were $2.3 million in each of the fiscal years ended 1999, 1998 and 1997.

The ESOP shares outstanding at April 28, 1999 and April 29, 1998, respectively, were as follows: unallocated 458,069 and 593,095; committed-to-be-released 38,921 and 32,329; and allocated 1,152,996 and 1,124,475. Shares held by the ESOP are considered outstanding for purposes of calculating the company's net income per share.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component increased $88.0 million in 1999, $180.3 million in 1998 and $55.1 million in 1997. During 1997, a gain of $13.8 million was transferred from the cumulative translation component of shareholders' equity and included in the determination of net income as a component of the $72.1 million gain recognized as a result of the liquidation of the company's investment in its New Zealand ice cream business. (See Note 3 to the Consolidated Financial Statements.)

Unfunded Pension Obligation: An adjustment for unfunded foreign pension obligations in excess of unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity. (See Note 10 to the Consolidated Financial Statements.)

8. SUPPLEMENTAL CASH FLOWS INFORMATION

(DOLLARS IN THOUSANDS)	1999	1998	1997
Cash Paid During The Year For:			
Interest	$266,395	$300,173	$310,146
Income taxes	287,544	188,567	295,008
Details of Acquisitions:			
Fair value of assets	$350,575	$200,406	$264,560
Liabilities*	80,055	47,912	56,168
Cash paid	270,520	152,494	208,392
Less cash acquired	1,569	10,382	9
Net cash paid for acquisitions	$268,951	$142,112	$208,383

** Includes obligations to sellers of $48.4 million and $14.2 million in 1999 and 1997, respectively.*

9. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options to purchase shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant. Generally, options are exercisable beginning from one to three years after date of grant and have a maximum term of 10 years. Beginning in Fiscal 1998, in order to place greater emphasis on creation of shareholder value, performance-accelerated stock options were granted to certain key executives. These options vest eight years after the grant date, subject to acceleration if predetermined share price goals are achieved.

The company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the company's stock option plans. If the company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	1998	1997
Pro forma net income	$440,080	$790,325	$295,605
Pro forma diluted net income per common share	$ 1.20	$ 2.12	$ 0.79
Pro forma basic net income per common share	$ 1.22	$ 2.16	$ 0.80

The pro forma effect on net income for 1999, 1998 and 1997 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted-average fair value of options granted was $11.34 per share in 1999, $12.45 per share in 1998 and $6.94 per share in 1997.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1999	1998	1997
Dividend yield	2.5%	2.5%	3.3%
Volatility	22.0%	20.0%	17.5%
Risk-free interest rate	5.3%	5.8%	6.3%
Expected term (years)	4.9	5.5	5.5

Data regarding the company's stock option plans follows:

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE
Shares under option May 1, 1996	32,495,878	$23.33
Options granted	7,508,500	34.68
Options exercised	(6,466,030)	20.92
Options surrendered	(463,500)	25.87
Shares under option April 30, 1997	33,074,848	$26.34
Options granted	2,990,000	53.76
Options exercised	(10,283,073)	22.40
Options surrendered	(181,000)	34.22
Shares under option April 29, 1998	25,600,775	$31.07
Options granted	8,979,200	53.07
Options exercised	(3,138,445)	24.59
Options surrendered	(924,300)	40.11
Shares under option April 28, 1999	30,517,230	$37.94
Options exercisable at:		
April 30, 1997	18,473,073	$22.53
April 29, 1998	14,397,175	24.70
April 28, 1999	13,507,295	27.60

The following summarizes information about shares under option in the respective exercise price ranges at April 28, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE PER SHARE	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE
$18.75–32.13	16,020,830	5.26	$26.73	11,954,208	$24.97
33.00–46.00	3,279,500	7.58	39.34	762,667	36.98
46.31–59.94	11,216,900	9.38	53.53	790,420	58.31
	30,517,230			13,507,295	

The shares authorized but not granted under the company's stock option plans were 452,335 at April 28, 1999 and 8,507,235 at April 29, 1998. Common stock reserved for options totaled 30,969,565 at April 28, 1999 and 34,108,010 at April 29, 1998.

The company's management incentive plan covers officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Compensation under the management incentive plans was approximately $47 million in 1999, $46 million in 1998 and $37 million in 1997.

10. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Current defined benefit plans are provided primarily for domestic union and foreign employees. Defined contribution plans are provided for the majority of its domestic non-union hourly and salaried employees.

Total pension cost consisted of the following:

(DOLLARS IN THOUSANDS)	1999	1998	1997
Components of defined benefit net periodic benefit cost:			
Service cost	$ 23,617	$ 21,038	$ 15,583
Interest cost	82,958	83,005	81,620
Expected return on assets	(109,490)	(103,421)	(94,720)
Amortization of:			
Net initial asset	(3,632)	(4,333)	(6,116)
Prior service cost	8,026	8,466	7,492
Net actuarial (gain)/loss	(3,752)	(10,307)	8,330
Loss due to curtailment, settlement and special termination benefits	60,485	6,482	–
Net periodic benefit cost	58,212	930	12,189
Defined contribution plans (excluding the ESOP)	23,980	23,571	23,658
Total pension cost	$ 82,192	$ 24,501	$ 35,847

The following table sets forth the funded status of the company's principal defined benefit plans at April 28, 1999 and April 29, 1998.

(DOLLARS IN THOUSANDS)	1999	1998
Change in Benefit Obligation:		
Benefit obligation at the beginning of the year	$1,270,521	$1,076,978
Service cost	23,617	21,038
Interest cost	82,958	83,005
Participants' contributions	7,044	7,344
Amendments	18,625	5,066
Actuarial loss	102,361	207,391
Curtailment (gain)/loss	(867)	453
Settlement	(36,751)	(34,474)
Special termination benefits	31,581	1,098
Benefits paid	(86,615)	(93,009)
Exchange	(25,431)	(4,369)
Benefit obligation at the end of the year	1,387,043	1,270,521
Change in Plan Assets:		
Fair value of plan assets at the beginning of the year	1,444,080	1,229,016
Actual return on plan assets	105,296	314,392
Settlement	(36,751)	(34,474)
Employer contribution	34,701	26,459
Participants' contributions	7,044	7,344
Benefits paid	(86,615)	(93,009)
Exchange	(27,398)	(5,648)
Fair value of plan assets at the end of the year	1,440,357	1,444,080
Funded status	53,314	173,559
Unamortized prior service cost	75,770	83,622
Unamortized net actuarial loss/(gain)	95,994	(1,488)
Unamortized net initial asset	(11,501)	(15,124)
Net amount recognized	213,577	240,569
Amount recognized in the consolidated balance sheet consists of:		
Prepaid benefit cost	221,823	251,306
Accrued benefit liability	(69,226)	(53,785)
Intangible asset	3,189	4,112
Accumulated other comprehensive loss	57,791	38,936
Net amount recognized	$ 213,577	$ 240,569

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were $278.8 million, $237.5 million and $168.3 million, respectively, as of April 28, 1999 and $274.3 million, $236.9 million and $183.1 million, respectively, as of April 29, 1998.

The weighted-average rates used for the years ended April 28, 1999, April 29, 1998 and April 30, 1997 in determining the net pension costs and projected benefit obligations for defined benefit plans were as follows:

	1999	1998	1997
Expected rate of return	9.5%	9.6%	9.6%
Discount rate	6.3%	6.9%	8.2%
Compensation increase rate	4.7%	4.9%	5.2%

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Certain of the company's U.S. and Canadian employees may become eligible for such benefits. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

Net postretirement costs consisted of the following:

(DOLLARS IN THOUSANDS)	1999	1998	1997
Components of defined benefit net periodic benefit cost:			
Service cost	$ 3,603	$ 3,339	$ 3,864
Interest cost	10,483	11,280	11,694
Amortization of:			
Prior service cost	(649)	(5,633)	(4,442)
Net actuarial gain	(3,430)	(3,664)	(2,572)
Loss due to curtailment and special termination benefits	3,732	1,085	–
Net periodic benefit cost	$13,739	$ 6,407	$ 8,544

The following table sets forth the combined status of the company's postretirement benefit plans at April 28, 1999 and April 29, 1998.

(DOLLARS IN THOUSANDS)	1999	1998
Change in benefit obligation:		
Benefit obligation at the beginning of the year	$ 157,975	$ 143,877
Service cost	3,603	3,339
Interest cost	10,483	11,280
Participant's contributions	858	620
Actuarial (gain)/loss	(3,688)	5,088
Curtailment	–	(834)
Special termination benefits	2,779	5,204
Benefits paid	(12,709)	(9,846)
Exchange	(813)	(753)
Benefit obligation at the end of the year	158,488	157,975
Funded status	(158,488)	(157,975)
Unamortized prior service cost	(6,711)	(6,418)
Unamortized net actuarial gain	(52,826)	(53,849)
Net accrued benefit liability	$(218,025)	$(218,242)

The weighted-average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit cost was 6.9% in 1999 and 1998 and 8.0% in 1997. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 7.1% for 1999, gradually decreases to 4.2% by 2007, and remains at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% INCREASE	1% DECREASE
Effect on total service and interest cost components	$ 1,536	$ (1,314)
Effect on postretirement benefit obligation	13,935	(12,090)

12. FINANCIAL INSTRUMENTS

Foreign Currency Contracts: As of April 28, 1999 and April 29, 1998, the company held currency swap contracts with an aggregate notional amount of approximately $110 million and $350 million, respectively. As of April 28, 1999, these contracts mature in 2002. The company had separate contracts to purchase certain foreign currencies as of April 28, 1999 and April 29, 1998 totaling approximately $510 million and $560 million, respectively, most of which mature within one year of the respective fiscal year-end. The company also had separate contracts to sell certain foreign currencies as of April 28, 1999 and April 29, 1998 of approximately $390 million and $60 million, respectively. As of April 28, 1999, these contracts mature in 2000 and 2001. Net unrealized gains and losses associated with the company's foreign currency contracts as of April 28, 1999 and April 29, 1998 were not material.

Commodity Contracts: As of April 28, 1999 and April 29, 1998, the notional values and unrealized gains or losses related to commodity contracts held by the company were not material.

Fair Value of Financial Instruments: The company's significant financial instruments include cash and cash equivalents, short- and long-term investments, short- and long-term debt, currency exchange agreements and guarantees.

In evaluating the fair value of significant financial instruments, the company generally uses quoted market prices of the same or similar instruments or calculates an estimated fair value on a discounted cash flow basis using the rates available for instruments with the same remaining maturities. As of April 28, 1999 and April 29, 1998, the fair value of financial instruments held by the company approximated the recorded value.

Concentrations of Credit Risk: Counterparties to currency exchange and interest rate derivatives consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of the counterparties involved and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers, generally short payment terms, and their dispersion across geographic areas.

13. NET INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share in accordance with the provisions of SFAS No. 128.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	1998	1997
Net income per share – basic:			
Net income	$474,341	$801,566	$301,871
Preferred dividends	30	37	43
Net income applicable to common stock	$474,311	$801,529	$301,828
Average common shares outstanding – basic	361,204	365,982	367,471
Net income per share – basic	$ 1.31	$ 2.19	$ 0.82
Net income per share – diluted:			
Net income	$474,341	$801,566	$301,871
Average common shares outstanding	361,204	365,982	367,471
Effect of dilutive securities:			
Convertible preferred stock	243	297	340
Stock options	6,383	6,674	6,233
Average common shares outstanding – diluted	367,830	372,953	374,044
Net income per share – diluted	$ 1.29	$ 2.15	$ 0.81

Stock options outstanding of 6.0 million, 2.0 million and 2.6 million as of April 28, 1999, April 29, 1998 and April 30, 1997, respectively, were not included in the above net income per diluted share calculations because to do so would have been antidilutive for the periods presented.

14. SEGMENT INFORMATION

The company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 supersedes previously issued segment reporting disclosure rules and requires the presentation of descriptive information about reportable segments that is consistent with the way in which management operates the company. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. Previously reported segment and geographic information has been restated to conform with SFAS No. 131 requirements.

The company's segments are primarily organized by geographical area. The composition of segments and measure of segment profitability is consistent with that used by the company's management. Descriptions of the company's reportable segments are as follows:

- ☐ *North American Dry* – This segment includes the company's North American dry grocery and foodservice operations. This segment consists of Heinz U.S.A., Heinz Pet Products, Star-Kist Seafood and Heinz Canada. This segment's operations include products in all of the company's core categories.
- ☐ *North American Frozen* – This segment consists of Heinz Frozen Food Company, which markets frozen potatoes, entrées and appetizers.
- ☐ *Europe* – This segment includes the company's operations in Europe and sells products in all of the company's core categories.
- ☐ *Asia/Pacific* – This segment includes the company's operations in New Zealand, Australia, Japan, China, South Korea, Indonesia, Thailand and India. This segment's operations include products in all of the company's core categories.
- ☐ *Other Operating Entities* – This segment includes the company's Weight Watchers classroom business as well as the company's operations in Africa, Venezuela and other areas which sell products in all of the company's core categories.

The company's management evaluates performance based on several factors; however, the primary measurement focus is operating income excluding unusual costs and gains. The accounting policies used are the same as those described in Note 1, "Significant Accounting Policies." Intersegment sales

are accounted for at current market values. Items below the operating income line of the Consolidated Statements of Income are not presented by segment, since they are excluded from the measure of segment profitability reviewed by the company's management.

The following table presents information about the company's reportable segments.

(DOLLARS IN THOUSANDS)	NORTH AMERICAN DRY	NORTH AMERICAN FROZEN	EUROPE	ASIA/ PACIFIC	OTHER OPERATING ENTITIES	NON-OPERATING (1)	CONSOLIDATED TOTALS
Fiscal year ended April 28, 1999							
Intersegment sales	$ 32,144	$ 21,131	$ 6,661	$ 13	$ 6,971	$ (66,920)	$ –
Net external sales	4,062,683	1,014,370	2,460,698	1,011,764	750,095	–	9,299,610
Operating income (loss)	716,979	80,231	246,187	89,830	95,715	(119,630)	1,109,312
Operating income (loss), excluding restructuring related items (2)	834,629	183,409	467,159	145,654	121,950	(99,792)	1,653,009
Depreciation and amortization expense	121,363	39,773	85,408	20,549	23,278	11,841	302,212
Capital expenditures (3)	138,081	35,293	100,569	25,209	12,757	4,814	316,723
Identifiable assets	3,418,096	832,226	2,208,208	998,685	374,852	221,567	8,053,634
Fiscal year ended April 29, 1998							
Intersegment sales	$ 28,492	$ 14,467	$ 3,756	$ –	$ 6,298	$ (53,013)	$ –
Net external sales	3,935,269	1,076,080	2,332,594	1,072,856	792,485	–	9,209,284
Operating income (loss)	797,191	258,199	386,874	136,501	53,677	(112,112)	1,520,330
Operating income (loss), excluding restructuring related items (4)	825,981	170,732	405,425	142,348	63,586	(100,219)	1,507,853
Depreciation and amortization expense	117,739	41,855	84,583	30,406	28,291	10,748	313,622
Capital expenditures (3)	121,783	34,244	90,829	53,856	40,076	32,966	373,754
Identifiable assets	3,248,068	918,807	2,230,857	839,176	564,391	222,122	8,023,421
Fiscal year ended April 30, 1997							
Intersegment sales	$ 34,475	$ 27,067	$ 3,430	$ –	$ 6,524	$ (71,496)	$ –
Net external sales	3,698,797	1,551,690	2,154,686	1,220,885	730,949	–	9,357,007
Operating income (loss)	442,461	(4,698)	316,563	171,577	(64,291)	(105,341)	756,271
Operating income (loss), excluding restructuring related items (5)	707,861	130,402	375,218	136,241	50,209	(81,742)	1,318,189
Depreciation and amortization expense	128,930	58,030	81,850	30,684	30,517	10,479	340,490
Capital expenditures (3)	118,377	63,682	107,166	38,415	48,565	1,252	377,457
Identifiable assets	3,309,675	1,324,293	2,015,296	1,017,875	571,711	198,937	8,437,787

(1) Includes corporate overhead, intercompany eliminations and charges not directly attributable to segments.

(2) Excludes restructuring and implementation costs of Operation Excel as follows: North American Dry $110.4 million, North American Frozen $116.9 million, Europe $225.1 million, Asia/Pacific $52.9 million, Other Operating entities $29.2 million and Non-Operating $18.3 million. Also excludes costs related to the implementation of Project Millennia as follows: North American Dry $7.2 million, North American Frozen $2.9 million, Europe $4.9 million, Asia/Pacific $3.0 million, Other Operating entities $2.8 million and Non-Operating $1.5 million. Also excludes the gain on the sale of the bakery division in Other Operating entities of $5.7 million. Also excludes the reversal of unutilized Project Millennia accruals for severance and exit costs in North American Frozen and Europe of $16.6 million and $9.1 million, respectively.

(3) Excludes property, plant and equipment acquired through acquisitions.

(4) Excludes costs related to the implementation of Project Millennia as follows: North American Dry $28.8 million, North American Frozen $9.1 million, Europe $18.6 million, Asia/Pacific $5.8 million, Other Operating entities $9.9 million and Non-Operating $11.9 million. Also excludes the North American Frozen gain on the sale of the Ore-Ida frozen foodservice business of $96.6 million.

(5) Excludes restructuring and implementation costs for Project Millennia as follows: North American Dry $265.4 million, North American Frozen $135.1 million, Europe $71.8 million, Asia/Pacific $36.8 million, Other Operating entities $114.5 million and Non-Operating $23.6 million. Also excludes gains on the sale of an ice cream business in Asia/Pacific and real estate in Europe of $72.1 million and $13.2 million, respectively.

A reconciliation of total segment operating income to total consolidated income before income taxes is as follows:

(DOLLARS IN THOUSANDS)	1999	1998	1997
Total operating income for reported segments	$1,109,312	$1,520,330	$756,271
Interest income	25,082	32,655	39,359
Interest expense	258,813	258,616	274,746
Other expense, net	40,450	39,388	41,820
Consolidated income before income taxes	$ 835,131	$1,254,981	$479,064

The company's revenues are generated via the sale of products in the following categories:

(DOLLARS IN THOUSANDS)	KETCHUP, CONDIMENTS AND SAUCES	FROZEN FOODS	TUNA	SOUPS, BEANS AND PASTA MEALS	INFANT FOODS	PET PRODUCTS	OTHER	TOTAL
Fiscal year ended April 28, 1999	$2,230,403	$1,399,111	$1,084,847	$1,117,328	$1,039,781	$1,287,356	$1,140,784	$9,299,610
Fiscal year ended April 29, 1998	2,046,578	1,473,228	1,080,576	1,085,438	986,203	1,315,774	1,221,487	9,209,284
Fiscal year ended April 30, 1997	1,958,362	2,023,058	873,610	1,021,615	1,013,826	1,238,109	1,228,427	9,357,007

The company has significant sales and long-lived assets in the following geographic areas. Sales are based on the location in which the sale originated. Long-lived assets include property, plant and equipment, goodwill, trademarks and other intangibles, net of related depreciation and amortization.

	NET EXTERNAL SALES			LONG-LIVED ASSETS		
	FISCAL YEAR ENDED					
(DOLLARS IN THOUSANDS)	1999	1998	1997	APRIL 28, 1999	APRIL 29, 1998	APRIL 30, 1997
United States	$4,917,967	$4,873,710	$5,169,779	$2,856,315	$2,885,359	$3,075,793
United Kingdom	1,182,690	1,170,935	967,644	399,669	491,850	436,709
Other	3,198,953	3,164,639	3,219,584	1,385,404	1,393,505	1,397,366
Total	$9,299,610	$9,209,284	$9,357,007	$4,641,388	$4,770,714	$4,909,868

15. QUARTERLY RESULTS (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1999				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Sales	$2,228,230	$2,322,402	$2,282,062	$2,466,916	$9,299,610
Gross profit	868,453	936,399	852,580	697,311	3,354,743
Net income (loss)	213,787	231,332	120,554	(91,332)	474,341
Per Share Amounts:					
Net income (loss) – diluted	$ 0.58	$ 0.63	$ 0.33	$ (0.25)	$ 1.29
Net income (loss) – basic	0.59	0.64	0.33	(0.25)	1.31
Cash dividends	0.31½	0.34¼	0.34¼	0.34¼	1.34¼

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1998				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Sales	$2,233,270	$2,264,082	$2,236,034	$2,475,898	$9,209,284
Gross profit	825,067	854,668	856,816	961,520	3,498,071
Net income	243,301	188,866	188,156	181,243	801,566
Per Share Amounts:					
Net income – diluted	$ 0.65	$ 0.51	$ 0.50	$ 0.49	$ 2.15
Net income – basic	0.66	0.52	0.51	0.50	2.19
Cash dividends	0.29	0.31½	0.31½	0.31½	1.23½

The first and second quarters of Fiscal 1999 include implementation costs related to Project Millennia of $0.02 per share and $0.01 per share, respectively. Second-quarter 1999 results also include the reversal of unutilized Project Millennia accruals for severance and exit costs ($0.04 per share) (see Note 4 to the Consolidated Financial Statements) and the gain on the sale of the bakery products unit (see Note 3 to the Consolidated Financial Statements).

Operation Excel resulted in restructuring and implementation costs of $0.27 per share in the third quarter and $0.84 per share in the fourth quarter of Fiscal 1999. (See Note 4 to the Consolidated Financial Statements.)

First-quarter Fiscal 1998 results include a gain on the sale of the company's Ore-Ida frozen foodservice business ($0.14 per share). (See Note 3 to the Consolidated Financial Statements.)

The implementation of Project Millennia resulted in costs of $0.02 per share in the first quarter, $0.03 per share in the second quarter, $0.05 per share in the third quarter and $0.04 per share in the fourth quarter of Fiscal 1998. (See Note 4 to the Consolidated Financial Statements.)

16. COMMITMENTS AND CONTINGENCIES

Legal Matters: On December 31, 1992, a food wholesale distributor filed suit against the company and its principal competitors in the U.S. baby food industry. Subsequent to that date, several similar lawsuits were filed in the same court and were consolidated into a class action suit. The complaints, each of which sought an injunction and unspecified treble money damages, alleged a conspiracy to fix, maintain and stabilize the prices of baby food. The court granted summary judgment to the defendants and entered an order dismissing the complaint with prejudice. The plaintiffs appealed and the Third Circuit Court of Appeals upheld the granting of summary judgment and dismissal of the complaint. Related suits which were filed in Alabama and California state courts, seeking to represent a class of indirect purchasers of baby food in their respective states continue. Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. The above-mentioned suits and claims when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position, results of operations or liquidity.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $99.5 million in 1999, $98.3 million in 1998 and $93.2 million in 1997. Future lease payments for non-cancellable operating leases as of April 28, 1999 totaled $239.4 million (2000–$49.1 million, 2001–$42.2 million, 2002–$33.5 million, 2003–$23.3 million, 2004–$19.7 million and thereafter–$71.6 million).

17. ADVERTISING COSTS

Advertising costs for fiscal years 1999, 1998 and 1997 were $373.9 million, $363.1 million and $319.0 million, respectively.

RESPONSIBILITY STATEMENTS

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
H.J. Heinz Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of H.J. Heinz Company and Subsidiaries (the "company") at April 28, 1999 and April 29, 1998, and the results of its operations and its cash flows for each of the three years in the period ended April 28, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

June 14, 1999

ELEVEN-YEAR SUMMARY OF OPERATIONS AND OTHER RELATED DATA

H.J. Heinz Company and Subsidiaries

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	1998	1997	1996
SUMMARY OF OPERATIONS:				
Sales	$9,299,610	$9,209,284	$9,357,007	$9,112,265
Cost of products sold	5,944,867	5,711,213	6,385,091	5,775,357
Interest expense	258,813	258,616	274,746	277,411
Provision for income taxes	360,790	453,415	177,193	364,342
Income before cumulative effect of accounting change	474,341	801,566	301,871	659,319
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income	474,341	801,566	301,871	659,319
Income per share before cumulative effect of accounting change – diluted	1.29	2.15	0.81	1.75
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income per share – diluted	1.29	2.15	0.81	1.75
Net income per share – basic	1.31	2.19	0.82	1.79
OTHER RELATED DATA:				
Dividends paid:				
Common	484,817	452,566	416,923	381,871
per share	1.34 1/4	1.23 1/2	1.13 1/2	1.03 1/2
Preferred	30	37	43	56
Average common shares outstanding – diluted	367,830,419	372,952,851	374,043,705	377,606,606
Average common shares outstanding – basic	361,203,539	365,982,290	367,470,850	368,799,645
Number of employees	38,600	40,500	44,700	43,300
Capital expenditures	316,723	373,754	377,457	334,787
Depreciation and amortization expense	302,212	313,622	340,490	343,809
Total assets	8,053,634	8,023,421	8,437,787	8,623,691
Total debt	3,376,413	3,107,903	3,447,435	3,363,828
Shareholders' equity	1,803,004	2,216,516	2,440,421	2,706,757
Pretax return on average invested capital	20.8%	27.0%	12.6%	21.8%
Return on average shareholders' equity before cumulative effect of accounting change	23.6%	34.4%	11.7%	25.5%
Book value per common share	5.02	6.10	6.64	7.34
Price range of common stock:				
High	61 3/4	59 15/16	44 7/8	36 5/8
Low	44 1/16	41 1/8	29 3/4	27 5/8

The 1999 results include, on a pretax basis, restructuring and implementation costs of $552.8 million for Phase I of Operation Excel and costs of $22.3 million related to the implementation of Project Millennia, offset by the reversal of unutilized Project Millennia accruals for severance and exit costs of $25.7 million and a gain of $5.7 million on the sale of the bakery products unit.

The 1998 results include costs of $84.1 million pretax related to the implementation of Project Millennia, offset by the gain on the sale of the Ore-Ida frozen foodservice business, $96.6 million pretax.

The 1997 results include a pretax charge for restructuring and implementation costs of $647.2 million, offset by capital gains of $85.3 million from the sale of non-strategic assets in New Zealand and the U.K. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses. The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

1995	1994	1993	1992	1991	1990	1989
$8,086,794	$7,046,738	$7,103,374	$6,581,867	$6,647,118	$6,085,687	$5,800,877
5,119,597	4,381,745	4,530,563	4,102,816	4,063,423	3,726,613	3,550,249
210,585	149,243	146,491	134,948	137,592	108,542	77,694
346,982	319,442	185,838	346,050	335,014	306,979	284,661
591,025	602,944	529,943	638,295	567,999	504,451	440,230
–	–	(133,630)	–	–	–	–
591,025	602,944	396,313	638,295	567,999	504,451	440,230
1.58	1.56	1.36	1.59	1.42	1.26	1.11
–	–	(0.34)	–	–	–	–
1.58	1.56	1.02	1.59	1.42	1.26	1.11
1.61	1.59	1.04	1.65	1.48	1.32	1.14
345,358	325,887	297,009	270,512	239,212	207,387	178,340
0.94	0.86	0.78	0.70	0.62	0.54	0.46⅓
64	71	78	86	91	113	134
373,317,480	385,778,757	390,374,298	400,267,734	400,696,424	399,980,757	398,819,408
367,685,810	378,483,701	380,728,905	386,331,811	384,983,564	383,507,801	384,981,923
42,200	35,700	37,700	35,500	34,100	37,300	36,200
341,788	275,052	430,713	331,143	345,334	355,317	323,325
315,267	259,809	234,935	211,786	196,138	168,523	148,104
8,247,188	6,381,146	6,821,321	5,931,901	4,935,382	4,487,451	4,001,807
3,401,076	2,166,703	2,613,736	1,902,483	1,226,694	1,256,607	962,321
2,472,869	2,338,551	2,320,996	2,367,398	2,274,863	1,886,899	1,777,238
22.1%	22.7%	18.7%	28.8%	31.3%	31.3%	31.4%
24.6%	25.9%	22.0%	27.5%	27.3%	27.5%	26.1%
6.76	6.26	6.08	6.21	5.84	4.96	4.61
28⅝	26⅝	30⅜	32⅜	27⅜	23⅞	17⅛
21⅛	20¼	23½	23¾	19⅝	16¾	12⅞

DIRECTORS AND OFFICERS*

H.J. Heinz Company

DIRECTORS

Anthony J. F. O'Reilly
Chairman of the Board.
Director since 1971. (3,6)

William R. Johnson
President and Chief Executive Officer.
Director since 1993. (1,3,5)

Nicholas F. Brady
Chairman and President, Darby Advisors, Inc. and Chairman, Darby Overseas Investments, Ltd., Easton, Maryland.
Director from 1987 through September 1988. Reelected 1993. (3,4)

Mary C. Choksi
Managing Director, Strategic Investment Partners, Inc. and Emerging Markets Investors Corporation, Washington, D.C.
Director since 1998. (4,6)

Leonard S. Coleman, Jr.
President, The National League of Professional Baseball Clubs, New York, New York.
Director since 1998. (4,6)

Edith E. Holiday
Attorney and Director, Various Corporations.
Director since 1994. (3,4,6)

Samuel C. Johnson
Nonexecutive Chairman, S.C. Johnson & Son, Inc., Racine, Wisconsin.
Director since 1988. (2,4)

Candace Kendle
Chairman and Chief Executive Officer, Kendle International Inc., Cincinnati, Ohio.
Director since 1998. (2,3)

Donald R. Keough
Chairman of the Board, Allen & Co. Incorporated, New York, New York.
Director since 1990. (2,3)

Lawrence J. McCabe
Senior Vice President, General Counsel and Secretary.
Director since 1991. (1)

Paul F. Renne
Executive Vice President and Chief Financial Officer.
Director since 1997. (1,5)

A. G. Malcolm Ritchie
Executive Vice President.
Director since 1998. (1)

Herman J. Schmidt
Independent Businessman.
Director since 1977. (2,3,4,6)

Eleanor B. Sheldon
Social Scientist.
Director since 1979. (2,4,6)

William P. Snyder III
President, The Wilpen Group, Inc., Pittsburgh, Pennsylvania.
Director since 1961. (2,3,4)

William C. Springer
Executive Vice President.
Director since 1993. (1)

S. Donald Wiley
Vice Chairman, H.J. Heinz Company Foundation.
Director from 1972 through September 1990. Reelected 1991. (6)

David R. Williams
Executive Vice President.
Director since 1992. (1,5)

James M. Zimmerman
Chairman and Chief Executive Officer, Federated Department Stores, Inc. Cincinnati, Ohio.
Director since 1998. (2,3)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

OFFICERS

William R. Johnson
President and Chief Executive Officer

Paul F. Renne
Executive Vice President and Chief Financial Officer

A. G. Malcolm Ritchie
Executive Vice President

William C. Springer
Executive Vice President

Richard H. Wamhoff
Executive Vice President–Global Manufacturing/Supply Chain and Frozen Foods

David R. Williams
Executive Vice President

Michael J. Bertasso
Senior Vice President–Strategy, Process and Business Development

Lawrence J. McCabe
Senior Vice President, General Counsel and Secretary

D. Edward I. Smyth
Senior Vice President–Corporate and Government Affairs

Rory W. Beattie
Area Vice President–Southern Africa and India

John Crawshaw
Area Vice President–Pacific Rim

R. Scott Allen
Vice President–Global Procurement/Packaging Optimization

John C. Crowe
Vice President–Taxes

Dennis R. Ellis
Vice President–Process Development

William C. Goode
Vice President and Chief Administrative Officer

Edward J. McMenamin
Vice President and Corporate Controller

Michael D. Milone
Vice President–Global Category Development

Steven C. Morelli
Vice President and Chief Information Officer

Lelio G. Parducci
Vice President–Nutrition & Technical Affairs and Chief Scientist

Tracy E. Quinn
Vice President–Strategy Development

Mitchell A. Ring
Vice President–Business Development

John Runkel
Vice President–Investor Relations

F. Nicholas Grasberger III
Treasurer

As of April 28, 1999.

WORLD LOCATIONS*

H.J. Heinz Company and Subsidiaries

WORLD HEADQUARTERS

600 Grant Street, Pittsburgh, Pennsylvania.

THE AMERICAS

Heinz U.S.A. Established 1869. Pittsburgh, Pennsylvania.
- ☐ *Portion Pac, Inc.* Acquired 1989. Mason, Ohio.

Heinz Frozen Food Company. Established 1998. Pittsburgh, Pennsylvania.

Star-Kist Foods, Inc. Acquired 1963. Newport, Kentucky.
- ☐ *Heinz Pet Products.* Established 1988. Newport, Kentucky.
- ☐ *StarKist Seafood.* Established 1988. Newport, Kentucky.
- ☐ *Star-Kist Caribe, Inc.* Acquired 1963. Mayaguez, Puerto Rico.
- ☐ *Star-Kist Samoa, Inc.* Acquired 1963. Pago Pago, American Samoa.
- ☐ *Empresa Pesquera Ecuatoriana.* Acquired 1991. Guayaquil, Ecuador.

Weight Watchers International, Inc. Acquired 1978. Woodbury, New York.
- ☐ *Cardio-Fitness Corporation.* Acquired 1985. New York, New York.
- ☐ *The Fitness Institute Ltd.* Acquired 1988. Willowdale, Ontario, Canada.

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada.
- ☐ *Omstead Foods Limited.* Acquired 1991. Wheatley, Ontario, Canada.
- ☐ *Shady Maple Farm Ltd.* Acquired 1989. LaGuadeloupe, Quebec, Canada.
- ☐ *Martin Pet Foods.* Acquired 1996. Elmira, Ontario, Canada.

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela.

EUROPE AND AFRICA

H.J. Heinz European Grocery. Established 1995. Stockley Park, Middlesex, England.
- ☐ *H.J. Heinz Company Limited.* Established 1917. Stockley Park, Middlesex, England.
- ☐ *H.J. Heinz B.V.* Acquired 1958. Elst, Gelderland, The Netherlands.
- ☐ *H.J. Heinz Branch Belgium.* Established 1984. Brussels, Belgium.
- ☐ *H.J. Heinz GmbH.* Established 1970. Cologne, Germany.
- ☐ *Sonnen Bassermann.* Acquired 1998. Seesen, Germany.
- ☐ *H.J. Heinz S.A.R.L.* Established 1979. Paris, France.
- ☐ *Heinz Iberica, S.A.* Established 1987. Madrid, Spain.
- ☐ *IDAL (Industrias de Alimentação, Lda).* Acquired 1965. Lisbon, Portugal.
- ☐ *COPAIS Food and Beverage Company S.A.* Acquired 1990. Athens, Greece.
- ☐ *Heinz Polska Sp. Z.O.O.* Established 1994. Warsaw, Poland.
- ☐ *Cairo Food Industries SAE.* Established 1992. Cairo, Egypt.

H.J. Heinz European Infant Feeding. Established 1999. Stockley Park, Middlesex, England.
- ☐ *Heinz Italia S.r.l. (formerly Plasmon Dietetici Alimentari S.r.l.).* Acquired 1963. Milan, Italy.
- ☐ *H.J. Heinz Company Limited.* Established 1917. Stockley Park, Middlesex, England.
- ☐ *Farley's Healthcare Products.* Acquired 1994. Kendal, Cumbria, England.
- ☐ *Fattoria Scaldasole S.p.A.* Acquired 1996. Monguzzo, Italy.
- ☐ *H.J. Heinz Company C.I.S.* Established 1994. Moscow, Russia.

H.J. Heinz European Foodservice. Established 1997. Stockley Park, Middlesex, England.
- ☐ *Heinz Single Serve Limited.* Acquired 1995. Telford, England.
- ☐ *Serv-A-Portion.* Acquired 1999. Turnhout, Belgium.
- ☐ *AIAL (Arimpex Industrie Alimentari S.r.l.).* Acquired 1992. Rovereto, Italy.
- ☐ *Dega S.r.l.* Acquired 1994. Rovereto, Italy.

As of April 28, 1999.

H.J. Heinz European Frozen and Chilled. Established 1997. Stockley Park, Middlesex, England.
- *H.J. Heinz European Frozen and Chilled Foods Limited.* Established 1993. Dundalk, Ireland.
- *H.J. Heinz Company (Ireland) Limited.* Incorporated 1966. Dublin, Ireland.

H.J. Heinz European Seafood. Established 1997. Paris, France.
- *H.J. Heinz Company Limited.* Established 1917. Stockley Park, Middlesex, England.
- *John West Foods Limited.* Acquired 1997. Liverpool, England.
- *Pioneer Food Cannery Ltd.* Acquired 1995. Tema, Ghana.
- *Indian Ocean Tuna, Ltd.* Acquired 1995. Victoria, Republic of Seychelles.
- *Ets. Paul Paulet S.A.* Acquired 1981. Douarnenez, France.
- *IDAL (Industrias de Alimentação, Lda.) Fish Division.* Acquired 1988. Peniche, Portugal.
- *Mareblu S.r.l.* Acquired 1996. Latina, Italy.

H.J. Heinz Central Eastern Europe. Established 1994.
- *H.J. Heinz Company C.I.S.* Established 1994. Moscow, Russia.
- *Heinz Polska Sp. Z.O.O.* Established 1994. Warsaw, Poland.
- *Pudliszki S.A.* Acquired 1997. Pudliszki, Poland.
- *Kecskeméti Konzervgyár Rt.* Acquired 1992. Kecskemet, Hungary.
- *Heinz P.M.V.* Acquired 1995. Zabreh, Czech Republic.

H.J. Heinz Southern Africa (Proprietary) Limited. Established 1995. Johannesburg, South Africa.
- *H.J. Heinz (Botswana) (Proprietary) Ltd.* Formed 1988. Gaborone, Botswana.
- *Kgalagadi Soap Industries (Pty) Ltd.* Acquired 1988. Gaborone, Botswana.
- *Refined Oil Products (Proprietary) Ltd.* Formed 1987. Gaborone, Botswana.
- *Olivine Industries (Private) Limited.* Acquired 1982. Harare, Zimbabwe.
- *Chegutu Canners (Pvt) Ltd.* Established 1992. Chegutu, Zimbabwe.
- *Heinz South Africa (Pty) Ltd.* Established 1995. Johannesburg, South Africa.
- *Pets Products (Pty) Limited.* Acquired 1997. Cape Town, South Africa.
- *Heinz Frozen Foods (Pty) Ltd.* Established 1995. Klerksdorp, South Africa.
- *Heinz Wellington's (Pty) Ltd.* Acquired 1997. Wellington, South Africa.

THE PACIFIC RIM AND SOUTHWEST ASIA

H.J. Heinz Pacific Rim. Established 1996. Auckland, New Zealand.
- *H.J. Heinz Australia Ltd.* Established 1935. Doveton, Victoria, Australia.
- *Heinz-Wattie Limited.* Acquired 1992. Auckland, New Zealand.
- *Heinz Japan Ltd.* Established 1961. Tokyo, Japan.
- *Heinz-UFE Ltd.* Established 1984. Guangzhou, People's Republic of China.
- *Seoul-Heinz Ltd.* Established 1986. Inchon, South Korea.
- *Heinz Win Chance Ltd.* Established 1987. Bangkok, Thailand.
- *Heinz India (Private) Limited.* Acquired 1994. Mumbai, India.
- *PT Heinz ABC Indonesia.* Acquired 1999. Jakarta, Indonesia.
- *PT Surya Pratista Hutama.* Acquired 1997. Surabaya, Indonesia.

Heinz: A Definition H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 5,700 and its business extends to loyal consumers in more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, The Budget Gourmet, Smart Ones, StarKist, 9-Lives, Ken-L Ration, Skippy, Pounce and many others. Overseas, the company's best-known brands are Heinz, Plasmon, Pudliszki, ABC, Orlando, Wattie's, Olivine, Farley's, Plasmon and Guloso. Heinz provides employment for approximately 38,600 people full-time, plus thousands of others on a part-time basis and during seasonal peaks.

Annual Meeting The annual meeting of the company's shareholders will be held at 2:00 p.m. on Wednesday, September 8, 1999 in Pittsburgh at Heinz Hall for the Performing Arts.

Copies of This Publication and Others Mentioned on This Page Additional copies of this publication are available from the Corporate Affairs Department at the Heinz World Headquarters address or by calling (412) 456-6000.

Form 10-K The company submits an annual report to the Securities and Exchange Commission on Form 10-K.

Copies of this Form 10-K are available from the Corporate Affairs Department.

Investor Information Securities analysts and investors seeking additional information about the company should contact Jack Runkel, Vice President–Investor Relations, at (412) 456-6034.

Equal Employment Opportunity H.J. Heinz Company hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. It has affirmative action programs in place at all domestic locations to ensure equal opportunity for every employee.

Copies of the H.J. Heinz Company Equal Opportunity Review are available from the Corporate Affairs Department.

Political Contributions H.J. Heinz Company's guidelines on political contributions are set forth in Exhibit 99 of the company's Form 10-K.

Copies of the exhibit are available from the Corporate Affairs Department.

Environmental Policy H.J. Heinz Company is committed to protecting the environment. Each affiliate has established programs to review its environmental impact, to safeguard the environment and to train employees.

Copies of the H.J. Heinz Company Environmental Report are available from the Corporate Affairs Department.

Corporate Data ***Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts or to arrange for the direct deposit of dividends):*** ChaseMellon Shareholder Services, L.L.C., 85 Challenger Road, Overpeck Centre, Ridgefield Park, New Jersey 07660. (800) 253-3399 (within U.S.A.) or (201) 329-8660 or http://www.chasemellon.com.

Auditors: PricewaterhouseCoopers LLP, 600 Grant Street, Pittsburgh, Pennsylvania 15219

Stock Listings: New York Stock Exchange, Inc.
Ticker Symbols: Common–HNZ; Third Cumulative Preferred–HNZ PR
Pacific Exchange, Inc.
Ticker Symbol: Common–HNZ

TDD Services **ChaseMellon Shareholder Services can be accessed through telecommunications devices for the hearing impaired by dialing (800) 231-5469 (within U.S.A.) or (201) 329-8354.**

Heinz on the Internet **Financial results, news and information about Heinz and its affiliates can be found on Heinz's home page at http://www.heinz.com.**

Company News On-Call **Heinz news releases, including earnings announcements, are available by fax 24 hours a day through Company News On-Call at (800) 758-5804. The Heinz extension is 575757.**

Heinz

H.J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057
(412) 456-5700
heinz.com

This entire report is printed on recycled paper.

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Editorial: Matt Doherty
Produced by H.J. Heinz Company Corporate Affairs Department

MAKE:

Delicious and convenient EZ Meals from Heinz Ketchup with an exciting new booklet featuring 31 tasty recipes and special offers, now available to Heinz shareholders.

CHEESEBURGER PIZZA

- ¾ lb lean ground beef or turkey
- 1 large (16oz) Italian bread shell
- 1 cup Heinz Tomato Ketchup
- 2 cups shredded cheese (American, Cheddar or Mozzarella)
- 9 to 12 Ore-Ida Frozen Fried Onion Rings

Brown beef; drain fat.
Place bread shell on baking sheet.
Spread shell with ketchup.
Top with beef, cheese and onion rings.
Bake in preheated 425°F oven,
12 to 15 minutes until cheese is melted and onions are browned.
Makes 6 servings.

SEND TO:

EZ Meals from Heinz Ketchup; P.O. Box 29296; Shawnee Mission, Kansas 66201–9296

Please ship to me ____ copies of "EZ Meals from Heinz Ketchup" at $1.50 each (for shipping and handling). Make checks payable to: "Heinz Ketchup." (All monies payable in U.S. dollars. No cash, please.) All orders must be accompanied by a copy of this order form.

NAME ______________________________

ADDRESS ______________________________

CITY, STATE, ZIP ______________________________

May we e-mail special offers and information to you? ___ yes ___ no. E-mail address ______________________________

OFFER EXPIRES MAY 1, 2000. OFFER GOOD WHILE SUPPLIES LAST. PLEASE ALLOW 4-6 WEEKS FOR DELIVERY. OFFER GOOD IN U.S. AND CANADA ONLY, EXCEPT WHERE PROHIBITED BY LAW.

KARP001A99

Heinz

H.J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057

HEINZ CORPORATE WEB SITE

Heinz.com

U.S. SITES

Oreida.com
Rosetto.com
Bitebunch.com
Collegeinn.com
Heinzseed.com
Starkist.com
HeinzPet.com
Kibbles-n-Bits.com
9LivesCat.com
CycleDog.com
GravyTrainDog.com
RewardDog.com
MeatyBone.com
JerkyTreats.com
Pupperoni.com
Snausages.com
PounceCat.com

CANADIAN SITE

Heinzbaby.com

AUSTRALIAN SITE

Heinz.com.au

UNITED KINGDOM SITES

Heinz-Direct.co.uk
Heinz.co.uk